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EXPLORATION OF RESOURCE ALLOCATION DECISION-MAKING DEMAND AND STEWARDSHIP DEMAND FOR ENVIRONMENTAL DISCLOSURE

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ABSTRACT

Purpose: The purpose is, from various stakeholder perspectives, to explore three types of demand for environmental disclosure: resource allocation decision-making, stewardship decision-making, and stewardship incentives demand.

Design/methodology/approach: The data consists of 23 stakeholders/mini case studies, inspired by the pairwise stakeholder-company (principal-agent) relationships of agency theory (and stewardship). It is used to analyse the type of demands of both public and private sector stakeholders within the groups institutional investors, financial analysts, creditors, customers, non-governmental organisations (NGOs), and reporting and environmental authorities.

Findings: A framework based on the three types of demand appears to be a fruitful tool for understanding and explaining central aspects of demand. Some cases have none of these types of demand while other cases do have from one up to all three of them. It should be noted that each demand type can also be based on different motives in different cases. These differing motivations appear to be related, at least partly, to public sector (and possibly not-for-profit organisations) affiliation and effects.

Research limitations/implications: Knowledge about the reasons behind various demand types is important input, as it ensures that pertinent stakeholder information needs are met. Based on these case study data, it

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appears like future research should emphasize sufficient subdivision of stakeholder groups, public and (not-) for-profit private sector affiliation, and industry affiliation etc., as well as including several groups in each study. Further studies are needed to examine the generalizability of the study findings.

Originality/value: This paper is only the second attempt to systematically examine both resource allocation and stewardship reasons for demand for environmental disclosure. Moreover, it is the first to explore this phenomenon in depth, with the aim to improve the understanding of the theory underpinning it. Finally, it is one of few studies to examine and compare the demand of several stakeholder groups, as well as explore the importance of public and private sector affiliation and effects.

INTRODUCTION

“The reason why financial reporting (information) is in demand is not trivial, since it is not usually thought of as a consumption good” (Gjesdal, 1981). It follows that the reasons behind demand for the related environmental disclosure (and lack thereof) are not trivial either. Nevertheless, this is the most fundamental question that needs to be answered in order to understand stakeholder demand. Knowing this will make it easier to answer related questions, such as what kind of information stakeholders need, whether or not they get it with the current reporting practice, and how to ensure that they get it.

The motivation for this paper is based on several observations regarding the environmental reporting practice and the research on the subject. Firstly, there is an ample research literature on the supply of such disclosure (Fifka, 2013, Fallan, 2013b), and it shows that environmental disclosure has become common. However, relatively consistent findings reveal significant variations in quality of disclosure, and point to major weaknesses within the reporting practice, which might undermine its value for stakeholders (Deegan and Rankin, 1996, Deegan and Rankin, 1999, Niskanen and Nieminen, 2001, Larrinaga et al., 2002, Solomon and Solomon, 2006, Hopwood, 2009, Beck et al., 2010, Islam and Deegan, 2010). Research on the demand side is needed in order to explore the consequences of the reporting practice.

Secondly, while it is therefore a clear need for research on the demand side in order to explore the consequences of the reporting practice, there is a relative paucity of such studies (Deegan and Rankin, 1997, Ho and Wong, 2004, Solomon and Solomon, 2006, Campbell and Slack, 2008). Thirdly, the existing user studies focus almost exclusively on investors (and the like) and NGOs (Tilt, 1994, Deegan and Rankin, 1999, Solomon and Solomon, 2006, McInnes et al., 2007, De Villiers and Van Staden, 2010, Campbell and Slack, 2011) . Fourthly, most existing studies analyse only one

stakeholder group (Deegan and Rankin, 1997, Beattie and Pratt, 2002, McInnes et al., 2007), which precludes comparison in order to put findings in perspective, and misses out on “the interaction between them and the incentives they face in determining the information environment” (Beyer et al., 2010). The final observation relates to the lack of systematic theorising concerning the reasons for demand for environmental disclosure. The literature review has revealed only one paper that assesses the usefulness of environmental disclosure, as well as discussed such objectives theoretically and empirically (De Villiers and Van Staden, 2010). Dierkes and Antal (1985) tried to develop a framework for such studies, but it does not seem to be used.

The observations point to gaps in existing knowledge, thus motivating the research question: why do stakeholders demand environmental disclosure, i.e., what are they using it for? A theoretical framework is developed, based on the types of demand for financial reporting suggested by Gjesdal (1981). It identifies and separates three types of demand: resource allocation decision-making, stewardship decision-making, and stewardship incentive demand. The framework is used to analyse stakeholder demand in 23 small case studies. Both the framework and the interview data make use of the pairwise stakeholder-company (principal-agent) relationships of agency theory.

The research question is important, as the knowledge stemming from such research helps companies identify the type of information sought, and public knowledge about the demand serves as an incentive to meet stakeholders’ needs. Moreover, it might inform stakeholders, including reporting regulators, of the type of information they should secure the supply of.

The study contributes to the existing knowledge by addressing the observations presented above: exploring stakeholder demand for environmental disclosure; adding to the explicit and systematic theorising through the developed framework; simultaneously analysing resource allocation and stewardship demand; exploring groups previously not studied, using a refined stakeholder subgroup level analysis (exploring public versus private sector demand); and analysing several stakeholder groups in the same study. While most previous studies have focused on one stakeholder group only, this paper takes a broader approach and includes institutional investors, financial analysts, creditors, customers, NGOs, and reporting and environmental authorities, several of which consist of both public and private sector stakeholders.

The first finding is that for these cases, the proposed framework seems to be a fruitful tool for emphasizing important aspects of demand for environmental disclosure. There are cases in which it is identified 0, 1, 2 and 3 types of demand, and the discussion of findings indicate that the framework captures central parts of the demand. Most cases have at least one type of demand for environmental disclosure. The second finding is that stakeholders having the same type of demand

might have different incentives as a basis of that demand, and it seems to be important to recognise public sector affiliation or effects in order to capture this. Other tentative findings concern both detailing level of stakeholder (sub)groups, possible industry effects, and the need for using several stakeholder (sub)groups in future studies. The demand for environmental information appears to be much higher than that for environmental disclosure, but the latter is the scope of this paper.

A first finding is that, for these cases, the proposed framework seems to be a fruitful tool for emphasising important aspects of demand for environmental disclosure. Some cases have none of these types of demand while other cases do have from one up to all three of them, and the findings indicate that the framework captures central parts of the demand. Moreover, at least one type of demand for environmental disclosure is identified in most cases. A second finding is that stakeholders that have the same type of demand might have different motives as a basis of that demand, and it seems like public sector affiliation or effects explain such variability in several of these cases. Other tentative findings concern the need to allow for subdivision of stakeholder groups, possible industry, public and private sector effects, and inclusion of several stakeholder groups, in future studies. The demand for environmental information in general appears to be higher than that for environmental disclosure specifically. However, the former is outside the scope of this paper, and is not discussed.

RESEARCH ON USE(RS) OF CSR DISCLOSURE

Given the extensive literature on supply of corporate social responsibility (CSR) disclosure (Fallan, 2013b, Fifka, 2013), research on the demand side is comparatively scarce (Ho and Wong, 2004, Solomon and Solomon, 2006, Campbell and Slack, 2008). Table 1 provides some examples of studies of use(rs) of CSR disclosure. Much of the existing literature on use(rs) focuses on measuring the actual use of disclosure (e.g. stock market reactions) and stakeholder demand/pressure's consequences for reporting practice – what they do (the two rightmost columns²). However, as stakeholders' attitudes towards CSR disclosure are the focus of this study, this review of research is mostly limited to studies measuring stakeholders' claimed attitudes – what they say they do (questionnaire surveys and interviews).

Due to the lack of user studies, and the close relationship between environmental disclosure and other types of CSR disclosure, CSR studies are included in this review. The scope of this paper is

² Many of these studies are often perceived as works on “supply of disclosure”, even though they consider demand aspects as well.

“environmental disclosure”, meaning publicly available corporate environmental disclosure.

Whenever addressing other types of environmental information³, it is specifically noted.

Table 1: *Examples of research studies classified according to which stakeholder groups and type of data that are analysed*

| | Interview studies | Questionnaire studies | Content analysis, and other quantitative and document studies | Experiments and observations |
|---|---|--|--|---|
| Institutional/ professional investors (incl. stock market reactions) | <ul style="list-style-type: none"> • CURRENT STUDY • Solomon and Solomon (2006) • Beattie and Pratt (2002) • Friedman and Miles (2001) | <ul style="list-style-type: none"> • Beattie and Pratt (2002) | <ul style="list-style-type: none"> • Cormier et al. (2011) • Guidry and Patten (2010) • Al-Tuwaijri et al. (2004) • Blacconiere and Patten (1994) | <ul style="list-style-type: none"> • Rowbottom and Lymer (2009) • Holm and Rikhardsson (2008) |
| Investment advisors (financial analysts etc.) | <ul style="list-style-type: none"> • CURRENT STUDY • Campbell and Slack (2011) • Campbell and Slack (2008) • Beattie and Pratt (2002) | <ul style="list-style-type: none"> • Ho and Wong (2004) • Beattie and Pratt (2002) • Toms (2002) • Deegan and Rankin (1999) • Milne and Chan (1999) • Deegan and Rankin (1997) • BiE (1994) | | <ul style="list-style-type: none"> • Milne and Chan (1999) |
| Individual/ non-professional investors | <ul style="list-style-type: none"> • Beattie and Pratt (2002) | <ul style="list-style-type: none"> • De Villiers and Van Staden (2010) • Beattie and Pratt (2002) • Deegan and Rankin (1999) • Deegan and Rankin (1997) • Epstein and Freedman (1994) • Buzby and Falk (1979) • Buzby and Falk (1978) | | <ul style="list-style-type: none"> • Holm and Rikhardsson (2008) |
| Creditors/ lenders (incl. bond market reactions) | <ul style="list-style-type: none"> • CURRENT STUDY • Thompson and Cowton (2004) • Beattie and Pratt (2002) | <ul style="list-style-type: none"> • Thompson and Cowton (2004) • Beattie and Pratt (2002) • Cowton and Thompson (2000) • Deegan and Rankin (1999) • Deegan and Rankin (1997) | <ul style="list-style-type: none"> • Menz (2010) | <ul style="list-style-type: none"> • Guiral (2012) • Rowbottom and Lymer (2009) |
| Customers | <ul style="list-style-type: none"> • CURRENT STUDY | | | <ul style="list-style-type: none"> • Rowbottom and Lymer (2009) |
| Suppliers | | | | <ul style="list-style-type: none"> • Rowbottom and Lymer (2009) |
| Authorities | <ul style="list-style-type: none"> • CURRENT STUDY | | <ul style="list-style-type: none"> • CURRENT STUDY • Melting and Tungen (2012) • Fallan and Fallan (2009) • Nyquist (2003) • Larrinaga et al. (2002) | <ul style="list-style-type: none"> • Rowbottom and Lymer (2009) |
| NGOs/ lobby/ pressure groups etc. | <ul style="list-style-type: none"> • CURRENT STUDY • O'Sullivan and O'Dwyer (2009) | <ul style="list-style-type: none"> • Deegan and Rankin (1999) • Deegan and Rankin (1997) • Tilt (1994) | <ul style="list-style-type: none"> • Campbell (2004) | <ul style="list-style-type: none"> • Rowbottom and Lymer (2009) |

³ Environmental information is also supplied as private information by the company itself (private corporate disclosure), and private and publicly available non-corporate information (supplied by others than the company itself).

| | | | | |
|--|---|--|---|---|
| | <ul style="list-style-type: none"> • Deegan and Blomquist (2006) • O'Dwyer et al. (2005b) • O'Dwyer et al. (2005a) | | | |
| News media | | | <ul style="list-style-type: none"> • Islam and Deegan (2010) • Aerts et al. (2008) • Fallan and Fallan (2007) • Brown and Deegan (1998) | |
| Employees | <ul style="list-style-type: none"> • Johansen (2010) • Ball (2007) | | | <ul style="list-style-type: none"> • Rowbottom and Lymer (2009) |
| Auditors/ accountants | <ul style="list-style-type: none"> • Beattie and Pratt (2002) | <ul style="list-style-type: none"> • Beattie and Pratt (2002) | | <ul style="list-style-type: none"> • Rowbottom and Lymer (2009) • Milne and Chan (1999) |
| Accounting academics | | <ul style="list-style-type: none"> • Deegan and Rankin (1999) • Deegan and Rankin (1997) | | |
| CSR consultants/ intermediaries | <ul style="list-style-type: none"> • Friedman and Miles (2001) | | | <ul style="list-style-type: none"> • Rowbottom and Lymer (2009) |

Research on investors and creditors

Both investors and creditors provide capital, which is of crucial importance for companies. These stakeholder groups are often seen as the primary targets of financial reporting, both in research (Gjesdal, 1981) and conceptual frameworks of standard setters (IASB, 2010). Therefore it is not surprising that investors and their advisors are the most studied stakeholders in CSR disclosure research (Tilt, 1994, Deegan and Rankin, 1997, McInnes et al., 2007, Campbell and Slack, 2008).

Institutional/ professional investors

Beattie and Pratt (2002) find that environmental disclosure is not particularly relevant for resource allocation decisions, while Solomon and Solomon (2006) argue that institutional investors consider CSR information to be useful in resource allocation decision-making (whereas public CSR disclosure is not).

Financial analysts

Findings concerning investment advisors, such as financial analysts, tend to be consistent in that environmental disclosures are not read or found material (Ho and Wong, 2004, Campbell and Slack, 2011); that environmental issues are not particularly relevant for resource allocation decision-making (BiE, 1994, Beattie and Pratt, 2002); and that this is the stakeholder group with the lowest proportion of members seeking environmental disclosure and finding it material (Deegan and Rankin, 1997).

Individual/ non-professional investors

Large proportions of independent investors, 72% and 92% respectively, consider environmental disclosure material in their “decisions concerning a company”, according to Deegan and Rankin (1997) and De Villiers and Van Staden (2010). In the former study, only NGOs experienced higher numbers. However, these findings are contradicted by another survey. Beattie and Pratt (2002:83) indicate that “[i]t is likely that these items were not seen to be relevant to the investment decision.”

Creditors

The risks encountered by lenders differ from those associated with the stock market, e.g. because of the security banks require. Therefore, the decision processes and the demanded information might differ as well. Surprisingly few studies address the use of CSR disclosure among creditors, relative to equity investors. Deegan and Rankin (1997) reveal that two thirds of the bankers consider environmental issues to be material (most likely related to resource allocation), and 50% seek such disclosures in the annual report. Similarly, Thompson and Cowton (2004) and Guiral (2012) indicate that environmental disclosure is considered in lending decisions, and that the annual report is one among several sources where information is found. Beattie and Pratt (2002:83) on the other hand, show that environmental disclosure is perceived not to be particularly relevant for resource allocation decision-making, at least compared to financial information.

Research on other stakeholder groups

While Solomon and Solomon (2006) and Brown-Liburd et al. (2012) claim that the demand for CSR disclosure has been, and is still, increasing, Beattie and Pratt (2002:83) conclude that “the capital market is unlikely to demand more environmental, social and community disclosures.” This emphasises the need for studies of other stakeholder groups in addition to investors and creditors.

Some stakeholders, such as customers and suppliers, are important because of their direct economic relationship with the company. Nevertheless, existing research appears to overlook these two groups, with the possible exception of some supply chain studies. Different authorities and regulators might also be crucial stakeholders, as they affect the economic and regulatory conditions of companies. One example is companies that need discharge permits in order to operate. Still, as Table 1 indicates, there is a lack of both studies exploring the attitudes of these stakeholders, and explicit discussions of the role of authorities related to different types of demand for disclosure. In that respect, both reporting and environmental regulations are obviously relevant. Though, it should be mentioned that there are several quantitative-like approaches concerning regulations (Fallan and Fallan, 2009), and even document studies (Nyquist, 2003).

The call of O'Dwyer et al. (2005a:15) for research on “secondary” or “less economically powerful” stakeholders; the focus of McInnes et al. (2007:XVIII) on “stakeholder groups and ... situations where demand-led pressures are less intense than in the case of the equity market”; and the statement “while capital market participants are an important group receiving company information, there are other stakeholder groups who are widely believed to have a moral right to information” made by Beattie and Pratt (2002:83) – are all line with the stewardship perspective explored in this paper. NGOs and similar organisations are examples of stakeholders with a broader scope than just economic issues. Historically, together with investors and their advisors, they have been the most studied stakeholder group (Deegan and Rankin, 1997). Through news media and lobbying, environmental NGOs have been successful in putting environmental issues on the agenda, and forcing companies, industries and authorities to focus addressing them. It is “one of the key user groups of CSD [corporate social disclosure]” Tilt (1994:64). Findings in studies of NGOs appear to be quite uniform, in the way that environmental disclosure is generally in demand and read (Tilt, 1994, Deegan and Rankin, 1997, O'Dwyer et al., 2005a, O'Dwyer et al., 2005b). According to Tilt (1994), (leaders of) NGOs read annual reports in order to be better informed about companies.

The consistency of findings in research

When various equity and credit capital investors are considered as one stakeholder group, the results of research concerning the materiality or relevance of CSR disclosure are mixed (Solomon and Solomon, 2006, Brown-Liburd et al., 2012, Campbell and Slack, 2008, Margolis et al., 2009). This concerns both studies measuring attitudes, as discussed above, and the much greater number of other types of studies, as exemplified in Table 1. Nevertheless, by separating the *attitude*-related studies by subgroups, as done above, the results appear more consistent within the institutional investor and financial analyst groups.

Research also indicates that financial analysts (and other investor advisors) generally perceive CSR information as less relevant for their work than investors and creditors do (Deegan and Rankin, 1999, Campbell and Slack, 2008). Nevertheless, the two studies that have addressed both groups – and should thus be most relevant for making comparisons – reached different conclusions. Deegan and Rankin (1997) report a large significant difference, while Beattie and Pratt (2002) claim that the attitudes of the groups are similar. It is of particular relevance for this study that individual investors that make their own investment decisions are significantly more likely to state resource allocation decision-making as the reason for using environmental information, compared to individual investors that rely on analyst advice etc. (De Villiers and Van Staden, 2010). However, they do not experience such difference between the two groups concerning stewardship demand. The

issue discussed in this paragraph is interesting, given that “analysts are driven primarily by the requirements of their clients” (ergo investors) BiE (1994).

The *perceived* inconclusive results might be due to relationships that researchers are not fully aware of yet. The complexity of actual uses of information – where decision models might differ within and between stakeholder groups and subgroups, individuals, situations, time, industries, types of information, information sources, etc. – makes studies and their findings hard to compare. However, this raises another question – why are similar, large, inconsistencies apparently not experienced in the NGO research? The answer requires more research that addresses several stakeholder (sub)groups simultaneously (Deegan and Rankin, 1997, McInnes et al., 2007, Beyer et al., 2010), at some depth, and even explores new aspects of reality that might be important in research models, in order to put findings in perspective both theoretically and empirically. This paper intends to address these gaps, and the topic – different types of demand for information – is one such new aspect.

The use of theory in research on demand for CSR disclosure

Several theoretical frameworks are proposed and used to explain supply of CSR disclosure, e.g. agency theory (Ness and Mirza, 1991), legitimacy theory (O'Donovan, 2002), innovation adoption theory (Fallan, 2013a), stakeholder theory (Roberts, 1992), and signalling theory (Toms, 2002, Hasseldine et al., 2005). However, except agency theory, they are of limited use in explaining why stakeholders demand environmental disclosure.

Tilt (1994:48) discusses theoretical paradigms of CSR disclosure. A functionalist approach considers the usefulness of disclosure for investors, ignoring the possibility of other stakeholders, while an interpretive approach “recognizes [...] a pluralistic set of users” of disclosure, and that e.g. “decision-usefulness theory” therefore is broadened to consider also users other than investors. When considering the needs of a broad set of stakeholder groups, it automatically means that the political and social context is exposed, in addition to direct economic aspects. Many stakeholders might influence the decisions of a company, and even if they do not, it does not mean that their demand is not important in a larger perspective. In order to map a broader picture of the demand for disclosure facing companies, this approach is implicitly supported. Agency theory makes it possible to study all relevant principal-agent relationships, not only between investor (principal) and company management (agent).

The relatively scarce research literature on demand for CSR, reviewed above, disclosure usually answer empirically whether or not there is a demand, and does to some degree describe what types of content there is a demand for. The basic question of why do stakeholders demand CSR

disclosure, i.e. what it is used for, is, at best, treated superficially. Papers might hint at possible theoretical stands, without applying them systematically in the study. Many papers use detached terminology or constructs (like useful information, decision usefulness, decision-making, stewardship or accountability) without systematically clarifying their meaning, discussing their place in a more general theoretical context, and basing their research design (including hypothesis development and discussion of results) on it (Deegan and Rankin, 1997, Thompson and Cowton, 2004, O'Dwyer et al., 2005b, Solomon and Solomon, 2006, Rowbottom and Lymer, 2009, Johansen, 2010, Campbell and Slack, 2011). E.g. when Aerts et al. (2008:643) “put forward the view that information dynamics underlying environmental disclosure are endogenously driven by both financial markets' and public interest considerations”, this does not mean an explicit discussion of resource allocation decision-making or stewardship objectives. Still, investor research often seems to use some terminology related to resource allocation decision-making, while NGO research more frequently appear to focus on stewardship or accountability concepts.

While there is a lack of systematic use of theoretical frameworks to explain a potential demand in previous research on CSR disclosure, some exceptions exist. Dierkes and Antal (1985) actually suggest a framework for examining decision usefulness, but does not seem to use it. Solomon and Solomon (2006) are probably in search of theory, stating to use grounded theory. De Villiers and Van Staden (2010) and Cormier et al. (2011) use agency theory to derive hypotheses regarding investors' demand for environmental disclosure. Additionally, while several user studies of environmental disclosure seem to be based implicitly on either resource allocation decision-making or stewardship objectives, De Villiers and Van Staden (2010) seem to be the only that examines both explicitly. The study finds that, in general, at least 80-90% of individual investors in three western countries agree or strongly agree that companies should disclose environmental information due to stewardship objectives, while about 70% agree or strongly agree that such information is material for resource allocation decision-making. De Villiers and Van Staden (2010:237) indicate that shareholders need different types of environmental information “for investment decision-making” and “to ensure that their non-financial needs are met, such as the need to associate with companies with good social norms who are seen as good corporate citizens.”

“Not only does this imply that shareholders require environmental disclosure for more varied reasons than investment decision-making only, but it also shows that companies need to disclose a range of information items to meet these different requirements.”

However, one study that seeks views of one stakeholder group through a questionnaire survey is only the beginning. De Villiers and Van Staden (2010) acknowledge the limitations of their study. The

resource allocation decision-making and stewardship objectives of reporting are discussed more thoroughly in financial reporting research. This paper will draw on financial reporting research to develop a theoretical framework (see next section) to analyse demand for environmental disclosure. Different types of demand will be analysed simultaneously for several stakeholder groups in an explorative study, in order to gain insight into the reasons behind the demand. One important aspect that this framework emphasises is the potential importance of public versus private sector affiliation. The literature review has not identified any studies that address this aspect, apart from the possibly related research on private sector not-for-profit organisations [NGOs]. Still, even most of that work is conducted in separate studies (Deegan and Rankin, 1997).

THEORETICAL FRAMEWORK FOR INVESTIGATING WHY STAKEHOLDERS DEMAND ENVIRONMENTAL DISCLOSURE

The objective of this study is to explore why stakeholders demand environmental disclosure (if they do), i.e. what they are using it for. The demand for such information might arise for many reasons. May (1943) lists ten major “distinguishable” uses of financial reporting. While it is not clear how the list originates, most of the items are probably incorporated in the two types of demand suggested by Gjesdal (1981), both of which are derived from economic theory – resource allocation decision-making demand and stewardship (accountability⁴) demand. This is a common theoretical framework to explain demand for financial reporting, and parts of it have been used, often implicitly, in some CSR research studies. Its relevance for environmental disclosure is more systematically explored here.

Is the proposed financial reporting-based framework likely to be relevant for environmental disclosure as well as financial reporting? Financial reporting includes environmental transactions, liabilities and assets, and considers environmental risks and opportunities – even though environmental aspects are not usually identified and disclosed separately. Both financial and non-financial aspects of environmental issues might be useful in financial assessments of a company, as they might affect the cost of capital and estimation of future cash flows. Financial and environmental reporting is even regulated by the same laws and standards (at least in Norway⁵). The informational boundaries are usually different, since external effects, for example, are at the core of environmental disclosure, while it tends to be excluded from financial reporting. The boundaries of use of communication media are also broader for environmental disclosure (PAAinE, 2007:4). Nevertheless,

⁴ Stewardship and accountability are used interchangeably in this paper, as these are similar (not equal) constructs.

⁵The Accounting Act, and for example, the accounting standard “NRS 16 The board of directors’ report”.

similar information characteristics (e.g. reporting principles) are necessary in both types of reporting in order to be useful. This is important, as “[f]inancial reporting is not an end in itself. It is a means of communicating to the users” (IASB and FASB, 2006:19). Moreover, financial reporting (and its principles) is often used as a benchmark for evaluating environmental reporting. Hence, the proposed theoretical framework is not (ex ante) disqualified as relevant for explaining the demand for environmental disclosure.

Financial accounting research, e.g. Gjesdal (1981), seems to focus mostly on investors (and creditors), in line with the two primary user groups selected by financial reporting standard-setters (IASB, 2010). Is it appropriate to use this financial reporting-based framework in relation to other relevant stakeholders of environmental disclosure identified in the previous section? IASB and FASB (2006) identify seven potential user groups that general purpose financial reporting is supposed to provide with useful information (equity investors, creditors, suppliers, employees, customers, governments and their agencies and regulatory bodies, and members of the public and their representatives). The Government Accounting Standards Board (GASB) emphasises the citizenry, legislative and oversight bodies, and investors and creditors (GASB, 1987). According to Murphy et al. (2013), the objectives of the 1973 Trueblood report of the American Institute of Certified Public Accountants (AICPA), “refer to financial statements primarily serving those users with limited authority, ability, or resources to obtain information.” The framework should therefore be appropriate for explaining the use of disclosure for a broad range of stakeholders. Next, a framework for exploring why stakeholders demand environmental disclosure is developed by discussing the resource allocation decision-making and stewardship objectives of reporting. Additionally, the meaning of public and private sector for this demand is discussed specifically in a separate subsection.

Resource allocation decision-making demand

Gjesdal (1981:208) suggests that financial reporting information might be in demand because it is of “value to investors (in a broad sense) making investment decisions”, and states that resource allocation decision-making demand is derived from information economics. This theoretical approach claims that stakeholders prefer more information to less, and ignores the information overload challenge in assuming that individuals make full and correct use of all information available to them (Walker, 1988). In financial theory, the ultimate example of information relevant for resource allocation decisions is future cash flows. However, future cash flows are rarely known (with certainty), and needs to be estimated:

“Information for decision purposes is information that enables the decision-maker (an investor) to estimate the future cash flows for investment decisions. This means information that feeds into the net present value calculation” (Christensen, 2010:293).

Moreover, “assessing the amounts, timing, and uncertainty of an entity’s future cash flows” (IASB and FASB, 2006:44/QC1) is often difficult, and much information on stocks and flows, risks and opportunities, etc. is potentially relevant. Hence, an objective of financial reporting is to provide useful input in this expectations-forming process. In reality, it is hard to judge what information is (or is not) decision-useful. Decisions and assessments of new information are influenced by the accumulated knowledge, beliefs and values of decision-makers. In that respect, it is possible to claim that all information might be decision-useful to some extent.

Resource allocation decision usefulness emerged in the accounting literature in the second half of the 20th century, probably in conjunction with the development of capital markets, government regulations, etc. (Zeff, 2012). In 1978, Financial Accounting Standards Board (FASB) selected decision usefulness as the primary objective of financial reporting (Murphy et al., 2013), and it is now the primary objective in the conceptual framework of IASB (2010) as well.

Stewardship demand

According to Gjesdal (1981:208), stewardship demand for financial reporting arises because “[i]nvestors usually delegate decision-making to managers. Then there may be a demand for information about the actions that are taken for the purpose of controlling them.” The described principal-agent (stakeholder-company) relationship reveals a close link with agency theory (Gjesdal, 1981, O’Connell, 2007, PAAinE, 2007). Gjesdal (1981:213) claims that this is “characteristic of the stewardship concept as it appears in the accounting literature,” and uses agency theory to analyse stewardship demand theoretically.

The company management (agent) makes decisions on behalf of the stakeholder (principal). The principal cannot observe (all) the agent’s actions. Even though the company’s performance might be observable, it is usually affected both by the agent and by events outside the agent’s control. Therefore, the principal requires information from the agent in order to reduce the information asymmetry, thereby reducing the likelihood of moral hazard. According to agency theory, reporting is not an end in itself, but a means to solve the agency information problem stemming from delegation of decision-making from a principal to an agent.

Gjesdal (1981) has analysed the stewardship objective of information production, rather than only financial reporting. Hence, theoretically, stewardship demand is equally relevant for environmental disclosure. Actually, features common to both environmental disclosure and

stewardship – e.g., responsibilities beyond self-interest and narrow economic considerations – suggest that this demand is at least as relevant for environmental as for financial reporting (O'Connell, 2007). Chen (1975) claims that the original (historic) stewardship concept connotes a dual responsibility, both towards the owner(s) and society – recognising the fact that one's behaviour (e.g., use of resources) affects others. Stewardship implicates moral obligations and responsibilities (Jeavons, 1994, Murphy et al., 2013) and fairness (Coy et al., 2001), emphasising “company performance as a whole” (PAAInE, 2007), whereby a broad set of issues and stakeholders are considered. According to Grimsey and Lewis (2002), “accountability also has broader economic and social purposes and objectives [than investors' resource allocation] because of the many other groups that have a legitimate interest in knowing about the activities and operations.” The stewardship role of accounting is particularly important in “social and environmental reporting” (O'Connell, 2007, Murphy et al., 2013), and “[a]s changes occur in our concepts and focus of accountability for the environment, demands for different flows of information, accounting and otherwise, are also likely to grow” (Hopwood, 2009:433). De Villiers and Van Staden (2010:237) found that stewardship demand for disclosure “implies both responsible environmental management and giving an account of the environmental management actions taken.”

Gjesdal (1981) studied “investors (in a broad sense).” However, stewardship demand is not limited to those stakeholders. The principal-agent relationship can be seen as both explicit and implicit contracts (of delegation) (Ramanna, 2013). This enables theoretical analyses of (probably) any company-stakeholder relationship, one pair at a time, and provides an explanation for a broad range of stakeholders' (principals') demand for environmental reporting from companies' management (agents). Information concerning how companies are managing environmental issues is likely to be relevant for a broad set of stakeholders. Ramanna (2013) uses “delegation of environmental stewardship by a citizenry to an oil company” as an example of an implicit contract. However, the ownership claims and monitoring power can vary considerably for different relationships, both for explicit and implicit delegation. Still, these are not immutable states, as even stakeholders with initially weak claims or power can change their position, e.g., through strengthening competitive advantages or the use of media or lobby.

Stewardship decision-making demand

In this paper, stewardship demand is divided into stewardship decision-making demand and stewardship incentives demand. Both types stem from information asymmetry. The former arises because stakeholders, post reporting, might use the content of reporting to control and evaluate the acts selected by the manager of the firm. “Here the important characteristic is the ability of the information to provide information that enables the owner to distinguish the desirable from the

undesirable action” (Christensen, 2010:293). The information might enhance stakeholders’ decision-making on various issues other than investors’ resource allocation. For example, environmental information can serve as input in considerations of the need for intervention in management (both its decisions and composition) (Gjesdal, 1981, PAAinE, 2007); need for regulatory changes; selection of employer, partners, suppliers, or buyers of goods and services; identifications of companies to be targeted in environmental campaigns, etc.

Although, for centuries, stewardship was the sole objective of accounting, its meaning is not interpreted uniformly (Rosenfield, 1974, Chen, 1975, Birnberg, 1980, O’Connell, 2007, PAAinE, 2007, Zeff, 2012, Murphy et al., 2013). Rosenfield (1974) emphasises the delegation or decentralisation aspect of the reporting objective, stating that “[a]n objective of financial statements is to report on the control and use of resources by those accountable for their control and use to those to whom they are accountable.” Birnberg (1980:73) ascribes the content of the stewardship concept to the types of resources, tasks and decisions that the principal entrusts to the agent, i.e., to “the nature of the master-servant (or principal-agent) relationship.” This might be custodian stewardship that requires operational control (“management’s honesty in husbanding the enterprise resources”), asset utilisation stewardship that requires even managerial control (“management’s efficiency in utilizing [the enterprise resources]”), or a more strategic stewardship and ditto control (“management effectiveness in generating a return to shareholders”) (Birnberg, 1980, Zeff, 2012). These types of stewardship are also characterised by differing degrees of structure and uncertainty, and thus complexity. While balance sheet information might suffice for the former type, the latter would require performance information, as well as other retrospective and prospective information (Birnberg, 1980, PAAinE, 2007, Eierle and Schultze, 2013). Ijiri (1975) elaborates on this:

“The accountability approach [...] includes not only the traditional stewardship issues centred on the compliance with established rules but also the modern performance issues oriented toward the efficiency and effectiveness notions. Furthermore, the accountability approach may be extended to include information about the accountant’s future activities where the accountant is held accountable for his plans.”

In that context, stewardship demand for information is due to control and evaluation of past actions and performance, and assessments of future prospects (PAAinE, 2007).

Stewardship incentives demand

Stewardship incentives demand occurs because stakeholders provide incentives for corporate management to act in correspondence with the stakeholders’ best interests (and to avoid moral hazard due to information asymmetry) (Gjesdal, 1981, Christensen, 2010). Using his analytical model,

Gjesdal (1981) finds that reporting as an incentive mechanism is *ex ante* efficient, i.e., it has an enforcement effect. The fact that corporate management provides reporting information to stakeholders, which might be used for (post reporting) control or evaluation purposes, directly motivates corporate management to act more in compliance with stakeholder interests (even before the reporting takes place). Reporting has basically *ex ante* stewardship (incentive) value, regardless of whether the principal uses (at least reads) the information after it is reported (*ex post*).

However, Gjesdal (1981:219) claims that this incentive effect might be reduced or disappears if the control signal of reporting is not credible – i.e., if the agent understands that the information is not used *ex post*:

“One reason for giving tests to students is to increase their study effort. On the day of the exam this is no longer true. One possible strategy would be for professors to announce that tests will take place at the end of the quarter and then cancel at the last minute. However, once students realize that this is the strategy, the incentive effect is gone.”

This is also the consequence of the findings of Cormier et al. (2004). They conclude that corporate managers react to stakeholder demand, but that this is an evolutionary process, where managers adapt and change behaviour over time, according to their perception of both what issues or information stakeholders find important and which stakeholders are most important (in a particular context).

Demand from public sector stakeholders

There is a close link between the concept of stewardship and the role of the public sector. Politicians are elected by the people, and the public sector exists to manage public resources on behalf of the population. The natural environment is, in many aspects, a common good. The politicians are accountable for the effect their decisions have on it. Further they must ensure that the public sector acts in line with its particular stewardship responsibility, and influence the actions of others through regulations, incentive mechanisms, and by being role models. This is a principal-agent relationship governed by both formal and social contracts. Environmental accountability creates a need for information concerning environmental issues, both on a macro (society) and a micro (company) level. This leads to a stewardship demand for environmental disclosure.

When consideration of environmental issues implies potential (alternative) costs, being a steward on behalf of the environment requires an altruistic dimension, which makes it easier to relate to public sector objectives than to profit maximisation. This is reflected in financial reporting objectives. When FASB spun off GASB to separate responsibility for establishing accounting standards for US state and local governments from that of business enterprises, the most important reason was

that “the duty to be publicly accountable is more significant in governmental financial reporting than in business enterprise financial reporting” (Coy et al., 2001:4). GASB (1987) acknowledges this:

“The Board believes that financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society. Public accountability is based on the belief that the taxpayer has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives.”

This accountability is prominent in the identified primary uses of financial reports:

“compare actual financial results with the legally adopted budget; to assess financial condition and results of operations; to assist in determining compliance with finance-related laws, rules, and regulations; and to assist in evaluating efficiency and effectiveness” (GASB, 1987).

While GASB considers accountability “to be the paramount objective from which all other objectives must flow” (Coy et al., 2001:4) in financial reporting for the public sector, FASB selected resource allocation decision-making as the only primary objective for private companies. This difference is also reflected in the choice of primary users of financial reporting. IASB and FASB (2006) emphasise the needs of investors and creditors, while GASB (1987) opts for “the citizenry, legislative and oversight bodies, and investors and creditors.” GASB states that public sector “decision-making encompasses social and political decisions in addition to economic decisions” (Coy et al., 2001:4). Based on this, it is likely that the demand for environmental disclosure from stakeholders representing the public sector would differ from that of private business enterprises. (The same logic might also differentiate not-for-profit organisations from business enterprises.)

Concluding remarks on the theoretical framework

The framework described in this section suggests that there are at least three important reasons for stakeholders’ demand for environmental disclosure, namely resource allocation decision-making, stewardship decision-making, and stewardship incentive mechanisms. The tasks and objectives of users, represented by different stakeholder groups and public versus private sector affiliation (or possibly not-for-profit and for-profit objectives), is thought to affect the type of demand for disclosure (if any).

RESEARCH DESIGN

The reason why stakeholders demand disclosure is one of the most fundamental questions of demand side research. Environmental disclosure has been previously examined in only one questionnaire survey, and is otherwise implicitly assumed, if considered at all. In order to gain a deeper understanding of the issue, it seems most adequate to start exploring it through a (multiple)

case study. While reasons behind the demand are the primary interest of the paper, the choice of cases is a secondary issue that is supposed to enhance the understanding of the first, “because it is believed that understanding them will lead to better understanding, and perhaps better theorizing, about a still larger collection of cases” (Stake, 2005:446).

Selection of cases

Among several choices concerning cases, the most crucial is assumed to be the stakeholder groups.

Selection of stakeholder groups

Stakeholder groups are selected based on the research question, review of research, and relevant theory. Investors (and their advisors), creditors, authorities and NGOs are included in the study partly because the objectives of their operation are supposedly extreme cases with respect to the three types of demand defined by the framework. Adding a public versus private sector dimension to the investor group as well, allows for illustrating different aspects of demand, as they can be seen as contrasting cases.

Additionally, investors and creditors are selected because both research and accounting standards indicate their importance, and because the possibly inconsistent results of previous research suggest that more knowledge is needed. The latter argument also calls for inclusion of NGOs, because the consistency of previous research findings is almost striking, given the complexity of demand indicated by investor research. Therefore, insight into the underlying elements is best served by including both. The tasks, responsibilities, power and possible information requirements of both reporting and environmental authorities, and business-to-business (B2B) customers, are likely different from those of the other stakeholders. Additionally, no similar research on these stakeholders has been conducted. For customers, the difference between public and private sector affiliation might also be relevant because the strict requirements on public procurement are voluntary in the private sector.

Selection of case organisations within each stakeholder group and representatives within organisations

In order to identify cases that are likely to demand environmental disclosure, the cases perceived as extreme were sought. If disclosure is required, these stakeholders would be its most likely users. If these stakeholders find disclosure irrelevant, others would probably perceive it the same way.

Previous research shows that environmental risk, of which industry sector is often used as a proxy, is one of the most important explanatory variables of supply of environmental disclosure, together with size (Fifka, 2013). Therefore, case organisations (and representatives) that interact with relatively large companies in the Global Industry Classification Standard (GICS)-sectors consumer staples, energy, industrials and materials were preferred (when possible), because such companies

are used as reference in the interviews. In particular, industry within the consumer staples sector has been proven to exhibit a close relationship between economic and environmental risk. Norway was chosen partly because of its reporting regulations (case 23), and the presence of the most relevant consumer staples sector industry. Additionally, it is a society characterised by a relatively high level of trust, which hopefully enables an open interview dialogue and honest responses, leading to more relevant data. It should be noted that there are few relatively large actors within many of these sectors in Norway.

The number of cases in the study is quite high. The interview with an environmental authorities-representative, revealed centrally-set objectives, tasks, and rules-based decision criteria that would imply relatively homogenous answers. Therefore, it was deemed more important to include a greater number of interviewees from other groups. The fact that both public and private sector entities should be included for some groups also affected the number of cases.

In order to obtain relevant data concerning the use of disclosure, it was decided to interview hands-on representatives with detailed knowledge of the issue, rather than only top management, who would likely provide more general policy information. However, the representatives were selected in cooperation with top management.

Interviews

Inspired by the designs of McInnes et al. (2007) and (Campbell and Slack, 2011), one company (and, in some cases, an industry) was used as a reference in each interview, in order to elicit specific answers and examples, in addition to general statements. The idea was to create pairs of principal-agent relationships, similar to the agency theory basis that is closely related to stewardship (and resource allocation) methodology.

Semi-structured interviews were conducted with one (two for case 11) representative from each case organisation in the autumn of 2011 and the spring of 2012. Three supplementary interviews were completed later in 2012. The duration of interviews varied between 10 and 70 minutes, with the majority lasting one hour. The author collected the data, which consists of 19 face-to-face interviews and three telephone interviews, all of which were recorded and subsequently transcribed, as well as the document study concerning case 23. The full list of all the cases is given in Table 2. All direct quotes used in the paper were translated to English by the author. In accordance with recommendations of Yin (2009), several measures were implemented based on considerations of validity and reliability. A main interview guide was developed, roughly based on the framework suggested in the previous section. Before each interview, minor adjustments were made in the guide,

in order to align it to stakeholder and reference company/industry characteristics. A protocol for notes was kept, and content was identified and structured according to certain themes. During the preparations for each interview, information searches and evaluation of documentation were performed. In addition to case 23, these document studies were more extensive for cases 1-3, 11, 13, 14 and 20, due to regulations and directions, for cases 18 and 21 due to internal documents received, and for the most relevant industry within GICS-sector consumer staples. The topics addressed include the materiality of environmental issues, to what degree they read environmental information in general and environmental disclosure in particular, why they use it (or not) more generally, examples of use, and company dialogue. The interview data are analysed in line with the theoretical framework described in the previous section.

Interviews are deemed adequate for this exploratory study, given the paucity of previous research/knowledge to build upon, as it allows for detailed explanations, issues the querist had not thought of, and follow-up questions.

Table 2: Multiple mini case study data

| Stakeholder | Cases/ stakeholder group | Public or private sector affiliation | GICS-sector of reference company | Reads environmental disclosure | Resource allocation decision-making demand | Stewardship decision-making demand | Indications of stewardship incentive demand |
|-------------|--------------------------|--------------------------------------|--------------------------------------|--------------------------------|--|------------------------------------|---|
| 1 | Customer – B2B purchaser | Public | Industrials | No | No | No | Yes |
| 2 | Customer – B2B purchaser | Public | Industrials | No | No | No | Yes |
| 3 | Customer – B2B purchaser | Public | Industrials | No | No | No | Yes |
| 4 | Customer – B2B purchaser | Private | Industrials | No | No | No | Yes |
| 5 | Customer – B2B purchaser | Private | Industrials, IT | No | No | No | Yes |
| 6 | Customer – B2B purchaser | Private | Consumer staples, private households | No | No | No | Yes |

| | | | | | | | |
|----|---------------------------|---------|--------------------------------------|-----|-----|--------------------|-----------|
| 7 | Customer – B2B purchaser | Private | Consumer staples, private households | No | No | No | Uncertain |
| 8 | Customer – B2B purchaser | Private | Consumer staples, private households | No | No | No | No |
| 9 | Financial analyst | Private | Energy | No | No | No | No |
| 10 | Financial analyst | Private | Consumer staples | No | No | No | Uncertain |
| 11 | Investor | Public | Consumer staples | Yes | No | Yes | Yes |
| 12 | Institutional investor | Private | [Depersonalized] | No | No | No | Yes |
| 13 | Institutional investor | Public | Industrials, consumer staples | Yes | Yes | Yes | Yes |
| 14 | Institutional investor | Public | Materials | Yes | Yes | Theoretically, yes | Yes |
| 15 | Investment advisor | Private | Consumer staples, private households | No | No | No | No |
| 16 | Portfolio management | Private | Consumer staples, financials | No | No | No | No |
| 17 | Investment advisor | Private | Consumer staples, NGOs | No | No | No | No |
| 18 | Lender | Private | Consumer staples | Yes | Yes | Probably not | Yes |
| 19 | Lender | Private | Industrials | Yes | Yes | No | Yes |
| 20 | Environmental authorities | Public | Consumer staples | Yes | No | Yes | Yes |
| 21 | NGO | Private | Consumer staples | No | No | No | Yes |
| 22 | NGO | Private | Consumer staples | No | No | No | Yes |

| | | | | | | | |
|----|-----------------------|--------|----------------|----------------|-----|-----|-----|
| 23 | Reporting authorities | Public | Not applicable | Not applicable | Yes | Yes | Yes |
|----|-----------------------|--------|----------------|----------------|-----|-----|-----|

FINDINGS AND DISCUSSION

Why do stakeholders demand environmental disclosure, i.e. what they are using it for? This paper presents key findings on the underlying needs of stakeholders. It is explored whether resource allocation and stewardship decision-making demand and stewardship incentive demand form an adequate framework to explain parts of the demand for environmental disclosure in multiple small case studies. A discussion concerning the public sector concludes the section. Some tentative findings concerning the three types of demand are listed in Table 2.

Before discussing the cases in light of the framework, it is essential to present some background information. These “answers” will be illustrated, directly or indirectly, in the discussion of the cases below. Firstly, it is important to establish whether an interest in environmental issues exists in these cases: do environmental issues matter? Theoretically, it is possible to think of situations where it holds true for all the cases. However, in practice, e.g., stakeholder 9 (financial analyst related to the GICS-sector energy) thinks environmental events that potentially can affect investment recommendations are so rare and unlikely that their effects can be disregarded.

Secondly, if stakeholders find environmental issues are material, does it mean that they demand environmental information? Again, theoretically, it seems possible for all stakeholders to think of information that would be material in their contexts. However, in reality, stakeholder 9 believes that information that makes prediction of unlikely environmental events – e.g., major environmental catastrophes – possible, does not exist. For several stakeholders the relevance depends on what the customers ask for/buy. Stakeholders 9 and 15-17 (investors, and the like) have never encountered customers asking for services that would make environmental information relevant, so it is unlikely. (However, stakeholders 15 and 17 have had requests concerning other CSR topics.) According to stakeholder 7 (B2B purchaser), potential new solutions might reduce the use of energy, packaging, transportation etc., and thereby reduce costs and improve environmental performance. Nevertheless, what matters is profitability – cost reductions compared to (changes in) consumption patterns of private households: “A square-shaped bottle that saves space in transport is not as popular as round bottles,” so it is dropped from the market. The demanded information reflects this reality, and information on the reduction in greenhouse gas emission is not important.

Nevertheless, the scope of this paper is demand for one type of environmental information – publicly available corporate environmental disclosure (environmental disclosure). Even though almost all 22 interviewees are aware of the availability of such disclosure, only six (stakeholders 11, 13, 14, 18, 19 and 20) read environmental disclosures in order to do their work (and to different degrees). For most of the 16 interviewees that do not read it, this is an option they do not even consider – it is not interesting enough. This is not a survey to generalise results. Still, the finding is thought-provoking. When the disclosure is not read, it means that it is not used for resource allocation or stewardship decision-making purposes. However, many of the 16 stakeholders still demand such disclosure – probably because they value the stewardship incentive mechanism (environmental disclosure might make reporting companies enhance (environmental) performance). It should be noted that several of the 16 non-users of such disclosure use other types of environmental information (private corporate environmental disclosure, and public and private non-corporate environmental disclosure).

Before discussing findings concerning all three types of demand for environmental disclosure separately, case 23 is presented because reporting regulation exemplifies the relevance of all three, albeit with some notable differences. This discussion of governmental demand for environmental disclosure through reporting regulations is based on the preparatory works, which reveal the purposes of the law. When regulation of environmental disclosure in the Accounting Act was first introduced, and later extended, it was motivated by a dual purpose (UD, 2009). The first purpose is that the reported information is potentially important in itself, because its post-disclosure use might affect both resource allocation and stewardship decision-making. The second purpose is to induce better environmental performance through including the topic into the agenda. The fact that the board of directors has to confirm and sign the disclosed environmental information – and that management is obliged to provide relevant information for them – means that the decision-makers are forced to pay attention to environmental performance. This incentive mechanism is governed by the motto “what is measured is done.” In this example, the authorities (the principal) appreciate both the decision usefulness (potentially both resource allocation and stewardship decisions) and the (stewardship) incentive role of reporting. Nyquist (2003) indicates the same holds for Sweden and Denmark. Empirical studies conducted in Denmark and the US indicate that mandatory reporting of environmental information has led to improved corporate environmental performance (Bebbington, 1999, Mobus, 2005). It is also pertinent to mention that the Norwegian reporting regulations, and therefore demand, are stricter for environmentally sensitive operations, than for e.g. “office” companies. This might affect both decision making demand and the incentive mechanism. Additionally, research indicates that enforcement of reporting regulations are important concerning

their effect (Patten, 2005; Fallan and Fallan, 2009). There is no enforcement of these regulations in Norway, something that is well known. When demand is not perceived as real, which has had an effect on reporting (Fallan and Fallan, 2009; Melting and Tungen, 2012), this might also influence the incentive mechanism.

Resource allocation decision-making demand for environmental disclosure

Five cases seem to demand environmental disclosure for resource allocation purposes. Case 23 is already discussed above. Not surprisingly, the remaining four cases concern investors and creditors (resource allocators). One case concerns stakeholder 14, an institutional investor that is a public sector entity. The investor deals with various (environmentally sensitive) industries. While parts of the interview reflect the interviewee's general perceptions of demand and experiences concerning disclosure, others focus on a company in the GICS-sector "materials" in order to obtain more specific answers. The interviewee's job is to make investment recommendations based solely on environmental criteria – identification of companies that cannot be a part of the investment portfolio.

"We use publicly available sources in the initial screening of a company: Google, the company's own information in environmental reports, and particularly annual reports. ... Our recommendations become public after a while. Therefore, the directions say that the recommendations have to be substantiated. We have to reveal our sources. Then the facts have to be correct, we have to be sure that the case is serious enough to qualify for exclusion, and therefore we often have to be thorough. ... It is future risk that we need to consider, not a punishment for previous actions, though previous actions can indicate how the company will act in the future" (stakeholder 14).

According to stakeholder 9 (financial analyst), "there are funds whose objective is to invest in the companies that can be seen as very good [CSR and environmental performers], but it is far below one percent of the investor base." Even the few funds that do have ethical or environmental investment criteria do not have to demand environmental disclosure. While stakeholder 14 needs information in order to make such choices, stakeholder 12 (institutional investor having "ethical funds") resorts to simply copying publicly available decisions on exclusion of companies of other ethical or environmental funds: "We have followed them from day one. We think that they have such a large and good staff, work so thoroughly on these issues, and are so large, that it would just be silly not to follow them." Hence, stakeholder 12 is indirectly using environmental disclosures. Stakeholder 13 (institutional investor) has another approach, which makes use of environmental disclosure redundant:

“We do not choose the best [or exclude the worst environmental performers] within an industry. We focus on two industries that are enhancing the environment. That [all investments in those industries] is what we call environmental investments.”

However, this is only relevant for a part of case 13’s portfolio. In another area, they have sold their shares in several companies that do not fulfil certain environmental criteria of one particular industry. These decisions are made following broad analyses of several sources of information. The investor has even taken general and specific measures to improve the investees environmental reporting. The interviewee did not confirm the extent of the use, but there is some resource allocation decision making demand for environmental disclosure.

For comparison, it is interesting to highlight the attitudes of investors that do not demand environmental disclosure as well. Stakeholder 9, financial analyst of the GICS-sector energy, categorically rejects the relevance of environmental issues:

“Environmental issues do not affect investment recommendations, not mine at least. No, it takes an incredibly lot for that [an environmental catastrophe and changes in politics concerning climate, suggested by the interviewer] to be important. Of course, in such extreme cases [the environmental catastrophe], where a lot of attention is placed on actions in breach of the law, it may in fact have an economic effect. But it is incredibly rare that we become aware of that.”

Large environmental catastrophes are very rare, and if they occur, environmental disclosure cannot assist in their prediction. This view is supported by stakeholder 17 (investment advisor): “You cannot unveil it, no matter what you do ... even if you use large resources.” The analyst could not think of any other relevant environmental events, even regulations. Stakeholder 9 indicated absence of a resource allocation decision-making demand for such disclosure. Stakeholder 10 is another financial analyst, working with the GICS-sector consumer staples. This industry has experienced a close link between environmental and economic risk, which supposedly makes environmental issues more important to investors. Confronted with specific environmental risks⁶ relevant for these companies, the analyst confirms that these are considered when choosing which stocks to recommend:

“Eh, yes, well, what should I say? I would call it biological risk, and political risk. That is the angle we take, you know. Basically, we do not take the angle: are the operations of these [companies] ethical? We are not concerned with that aspect. Our attention is on the risks concerning their operations. And that is risk of litigation, or coming under suspicion by the authorities, or losses due to

⁶ Which risks these are is made anonymous to hinder identification.

[environmental⁷] problems. That, we are concerned about – having various sources on it and talking with the company.”

Despite the use of multiple sources of information, stakeholder 10 does not read environmental disclosures. There is apparently a resource allocation decision-making demand for environmental information, but not for environmental disclosure. The lack of demand is due to attributes of this reporting, and lack of time to cover everything. Stakeholder 12 takes a similar stand:

“Generally, the environment and these issues will in a way not be big enough, not material enough to have any financial consequences, and then they become not that important. It is an incredible amount of information out there, so fund managers and financial analysts have more than enough to deal with, even when focusing on the most important information.”

This information overload argument is contrary to the premise of “information economics” – the theory upon which resource allocation decision-making demand is derived (Gjesdal, 1981, Walker, 1988). The argument of stakeholders 15 (investment advisor), 16 (funding and portfolio manager) and 17 (investment advisor) for not considering environmental issues when making resource allocation decisions or reading environmental disclosures is that their customers do not ask for it. Occasionally, they experience some demand concerning other CSR topics, but not environmental considerations.

“I have experienced it [customers asking for ethical investments]. Now I have worked with [investments] for twelve years, but a long time ago ... about 2002-3, there was some focus on it [ethical investments] ... Afterwards, there has not been even a peep about it, I think. ... There could be some customers that mention that they do not like it if the fund invests in weapon production and stuff, for example. We respond by saying that we cannot guarantee it entirely, but that it is at least not the strategy of the fund. Then they just accept it, so it is not a main issue anymore. But, ten years ago there were some that wanted it [ethical investments]. After that, it has been gone” (stakeholder 15).

“We do actually have experience with some [customers] raising that topic, but related to ethical, not environmental, issues. ... Just now, for example, we are working with [an organisation] ... that wants the possibility to exclude companies based on [labour rights]” (stakeholder 17).

Stakeholders 9 and 10 have not even thought of the possibility that clients should demand green investments from them. Customers want high rates of return. Environmental restrictions on the investment universe are not seen as expedient, and environmental issues are not deemed relevant.

⁷ The original expressions are made anonymous to hinder identification.

The two last cases where *a potential* resource allocation decision-making demand for environmental disclosure is identified, are lenders. According to stakeholder 18, “[a] bank is a wheel in a large machinery, and what we do – cases in which we do or do not grant loans – has a large environmental impact.” Stakeholders 18 and 19 are both bank directors, heading departments that lend money to the GICS-sectors consumer staples and industrials, respectively, and are hence making resource allocation decisions. As recognised in stakeholder 18’s strategic reports to the bank’s top management, that sector clearly faces environmental challenges, and experiences a quite close relationship between economic and environmental risk. According to the interviewee, “the relevance of environmental risk is tied to economic risk, but there is a difference between, e.g., a violation and a material violation of environmental regulations.” This is because the authorities have a low threshold that triggers their response. Consequently, there are always minor events resulting in fines or demand on approximately all companies in this thoroughly regulated sector. Stakeholder 18 notices such events, obtains the company’s version and documentation, and what measures the company is implementing to address the issues.

“In the long run, it is a question of credibility, whether he does what he says he is doing, or is just saying it. The last group gets phased out because the risk gets too high, and for us as a bank, it is the risk of losing money at one point in time that determines it.”

Commenting on a recent environmental event, the stakeholder elaborates on the risks in this sector and the consequences for resource allocation:

“They lost about 15 million I would think, and that is a considerable amount, but they lost more on the history behind – the reputation. It is a very good example of not doing what they say they are. They did not detect the [event] because they did not follow their own routines. That would have been subject to a serious talk if it was one of our customers.”

The better environmental disclosure available, the better stakeholder 18 thinks it is. Still, the banker uses multiple other sources of information in the assessments, including talks with the company and others in the sector, news media, notifications of events from the company, decisions by regulators, reports on internal control, etc.:

“We have the annual report, which is a part of the basis of our analysis. And we will normally read through the annual report to familiarise with everything it says, but we have to go deeper than the annual report to get an adequate analysis.”

Still, to put matters into perspective, stakeholder 18 admits that environmental issues alone have never led to rejection of a loan application, “because there are other issues that count more, but of course, this also counts.”

Apparently, within the same bank⁸, there are considerable differences between these two sectors, concerning the importance of environmental issues and the demand for environmental disclosure. Stakeholder 19 struggled to identify examples of relevant issues, one of which was “aesthetic pollution.” The interviewee has never experienced or heard of cases where the environment has been an important decision point. This statement questions the materiality of the natural environment for decision-making in this sector. However, other CSR issues, such as “disorderly working conditions [for foreign hired workers]”, have caused rejections of loan applications. Still, in the interviewees view, the decision process is designed to reveal even relevant environmental risks if they should occur:

“We have made a credit case template that forces each account manager to consider [risks]. One aspect is a consideration of reputational risk, and that concerns elements, such as law, identity, moral, reputation, economy and ethics. You are supposed to comment on each, and in most cases it is unproblematic, but sometimes it might be relevant” [for CSR issues]. “We read the annual report and the corporate website, because much of the content in a credit case is description of the nature of the business.”

Even though the interviewee considers the likelihood of material environmental risks as low, the possibility is nonetheless appreciated (“it is most likely to be a reputational risk”). The use of multiple information sources – including environmental disclosure – is believed to reveal any potential risks when relevant. Therefore, the information is demanded and read, just in case...

A brief account of resource allocation decision-making demand

Information overload is probably pertinent in all the above cases. The key difference – concerning resource allocation decision-making demand for environmental disclosure – seems to lie in their assessment of the importance of environmental issues and information in general, and/or environmental disclosures in particular. Stakeholders 13, 14 and 18, and to a minor degree stakeholder 19 (and possibly, indirectly, stakeholder 12), recognise the potential relevance of environmental disclosure for resource allocation decision-making. Useful environmental disclosure would be beneficial in their work, and all of them, except stakeholder 12, both read and demand it. All these cases concern investors, creditors, and the regulator of financial reporting, whose objective is to provide useful decision-making information. Still, while political decisions mandate that stakeholders 13 and 14 make some environmental considerations in their investment decisions

⁸ According to stakeholder 19’s previous work experience “there is not much difference between banks. The thing that often deprives the bank’s focus on such matters is strong incentives for growth ... then one might perhaps skip these kinds of issues a bit easily.”

(though the required rate of return is not affected), for stakeholder 18 (and theoretically 19) this is based purely on economic considerations. These cases illustrate different uses of the disclosure.

How do these findings relate to previous research? One issue is the perceived inconsistency of previous findings regarding creditors. Case 18, and theoretically case 19, are in line with the conclusion of Deegan and Rankin (1997), Thompson and Cowton (2004) and (Guiral, 2012), that environmental disclosure matters for lending decisions, and thereby contradicts Beattie and Pratt's (2002) interpretation that environmental disclosure is irrelevant. However, both cases 18 and 19 are in line with the underlying data of Beattie and Pratt (2002), which shows that purely financial information is perceived to be more important than environmental disclosure. Concerning the *perceived* inconsistency of previous findings, it is, potentially, even more important to notice that industry differences clearly influence the perceived importance of environmental disclosure, and, hence, resource allocation decision-making demand, in cases 18 and 19. Judging by these two cases, it seems necessary to control for industry when studying the materiality of environmental disclosure for credit capital allocation decisions.

This study also addresses professional equity investors (institutional investors, analysts, and other advisors). The findings in previous research for these subgroups indicate that the materiality of environmental *disclosure* for resource allocation decisions is low, even though it might be higher for environmental information as a whole (Solomon and Solomon, 2006). The perceived low relevance of such disclosure is in line with the findings for private sector cases in this study (cases 9, 10, 12, 15-17). This also means that the possibly different views on materiality between analysts and creditors indicated in research are supported by the cases in this study. The interviews revealed that lenders, investors and advisors do interact, but not on a day-to-day basis, as such high frequency is not necessary for lenders, whose decisions processes have longer time intervals. The differences in practices indicate different decision models for professional investors and lenders.

The survey conducted by De Villiers and Van Staden (2010) shows that about 70% of (private sector, independent) investors demand environmental disclosure for resource allocation decision-making purposes, which differs from the finding concerning the few private investor (and the like) cases in this study. However, this might be due to significant differences in attitudes between individual investors (that are not addressed in this study) and professional investors.

The interviews indicate that there is considerable complexity (including variation) concerning such relationships. Nevertheless, the analysis of these cases reveals a clear, and potentially important, difference in the motives behind, or approach concerning, resource allocation decision-making demand, between public and private (for-profit) sector affiliation, as politicians make public

sector investors consider environmental issues. The intentions governing the delegation of dual perspectives to be considered in resource allocation processes, suggest that these are underlying systemic relationships, rather than just a random empirical finding in a small number of cases. If that perception holds, it is a basis for theorisation.

If the scope of the paper had been widened to include environmental information in general, rather than focusing solely on environmental disclosure, a greater resource allocation decision-making demand would likely emerge.

Stewardship decision-making demand for environmental disclosure

The study has identified five cases that might exemplify stewardship decision-making demand for environmental disclosure. Case 23, concerning reporting regulations, is discussed earlier. The remaining four cases will be addressed to obtain some of the knowledge shared by the stakeholders.

Stakeholder 11 is a public-sector based investor in many companies from various industries. Much of the interview concerns the relationship with a specific company in the GICS-sector consumer staples. However, the stakeholder's processes towards investees are rather standardised. This is a large, long-term owner, and its exercise of ownership is guided by general directions, given by the government. The investor's attitudes towards environmental issues are explicitly expressed, in publications, as expectations, rather than absolute demands. "Companies are expected to take responsibility and to be in the forefront of their fields", because, according to stakeholder 11, "when you think long-term, then good environmental work corresponds to good profitability, you know. At least, that is our hypothesis." As a result, "[c]ompanies' CSR work is a natural part of the follow-up of companies [we] own, in addition to awareness of financial results and business development." Stakeholder 11 adds that "[f]ormally, our ownership power is exercised in the general meeting of shareholders, and by electing people to the board." Therefore, information is needed to assess the performance of the board of directors (and management), on economic as well as a broader set of aspects, including environmental. Information is obtained from several sources. There is an

"information dialogue on different occasions. Specifically, we have quarterly meetings with management, the CEO and CFO, in connection with publication of new financial results. ... Additionally, we have a meeting with the company each year that is entirely devoted to CSR. Again, it is company management and typically, from larger companies, someone working specifically with CSR. Then it is possible to have a good dialogue on their reporting, because ... our way to prepare for such a meeting is, of course, to read the latest reports etc., and we know a bit about what is going on in society."

These meetings address both the past and the future, and the stakeholder appreciates both the forward-looking and confirmative value of reporting. It is clearly a stewardship decision-making demand for information, including environmental disclosure. “[Environmental disclosure] says something about how one works with things, what measures are taken ... ergo [it provides] much more information.” The stakeholder, e.g., recommends that their investees report according to GRI. Even though the primary focus is on environmental performance, reporting is also important because “it has to be visible in order for one to know.” It should be noted that “expectations concerning environmental issues do not affect the targeted rate of return”, and the environment is just “one topic of many” that stakeholder 11 addresses. The relatively close link between economic and environmental risk in the company discussed in the interview means that environmental issues are incorporated in the financial reporting and considerations, explicitly and indirectly. This could suggest that there is a resource allocation decision-making demand for environmental disclosure as well. However, stakeholder 11 did not give any such indication, emphasising instead significance of their long-term ownership. It could be added that stakeholder 11 has considerable power in this principal-agent relationship to influence economic and environmental performance “in house”. Deinvesting in this company and reinvesting elsewhere is not an option (in the short term), based on the policy established in the directions.

Stakeholder 13 uses environmental disclosure to select what companies (not) to invest in, as seen in the previous subsection. Additionally, the investor uses, e.g., meetings (potentially also the general meeting of shareholders), and written communication with investees to assess and influence their actions on certain environmental issues. Stakeholder 13 “expects companies to handle ... environmental risks that might have negative effect on its investments.” Since the stakeholder acts on behalf of the government, partly, as an environmental steward, it is clear that this environment-economic link does not have to be close. The interviewee pointed out that their focus on environmental disclosure (among other sources and measures) to assess and try to influence the environmental performance of investees is described even in the case company’s annual report – a stewardship decision-making (and incentives) demand.

This is not the case with stakeholder 14, who says that the reports prepared for resource allocation decision-making are “normally not” used to exercise ownership power in order to affect investees’ actions from inside. “It has happened once on [another CSR topic] as I am aware of, but it has never happened on environmental issues.” On that occasion, information, including disclosure, was used to confront company management, in order to make them change a CSR practice. Stakeholder 14 does not exercise ownership power, in e.g., general meetings of shareholders etc.

The interviewee admits that there is a theoretical possibility that a stakeholder decision-making demand for environmental disclosure might occur in the future, but it has not happened yet.

For stakeholder 18, the quotes in the previous subsection reveal how borrowers are confronted when negative environmental events occur. The interviewee does seek environmental information, including disclosure, to assess management's environmental performance. However, this is entirely motivated by potential effects on economic risk, and is only used as input to resource allocation decisions. The lender has no moral or environmental agenda, and has no direct say in, e.g., selection of board members or management. The close link between environmental issues and financial results turns stakeholder 18 into an environmental steward, albeit not by choice. Is this a stewardship decision-making demand? Probably not. Stakeholder 19 does not even experience the same link between environmental and economic risks, and cannot be said to have such a demand.

Stakeholder 20 represents the environmental authorities at one of the 18 County Governors. The job is set up to act as an environmental steward on behalf of society. The interview focused on companies in the GICS-sector consumer staples. This industry is thoroughly regulated, and compliance with discharge permits and other regulations is necessary for companies to continue their operations. Stakeholder 14 bases decisions mainly on specified technical and internal control data, that companies are required to report directly to the authorities at specified points in time, in addition the stakeholder's audits and inspections. There are no formal routines that require the stakeholder to use environmental disclosure. Still: "I read it, we read corporate environmental reporting, especially in connection with our inspections. Then we read ... ask for the management's reporting, the board of directors' report, for the last few years." It is done to see how companies present themselves, and might give general information about the environmental attention and work in the company. The use of environmental disclosure is diffuse – it is difficult to point out exactly its contribution to stewardship decision-making. Nonetheless, it adds to the general impression of the organisation that might influence decisions that are partly based on discretionary judgments. The identified demand for environmental disclosure is, therefore, partly due to stewardship decision-making. The interview concerns specifically one industry. However, it is important to acknowledge that environmental regulations concern environmentally sensitive industries, and even these to a differing degree. There is likely to be industry effects associated with this stakeholder group.

A brief account of stewardship decision-making demand

The five cases that can be said to have a stewardship decision-making demand for environmental disclosure all act on politically decided criteria. For the two investors that have experienced such use of disclosure, these are responsibilities and tasks that would not be carried out otherwise. Their main

responsibility is resource allocation and meeting the required return on investment, while environmental responsibilities are demanded additionally. The same can be said about *parts* of the environmental reporting regulations incorporated in the financial reporting regulations, as the primary responsibility is to ensure financial reporting, with environmental disclosure requirements added “while they are at it”. However, for stakeholder 20, environmental stewardship is the sole purpose of the job. If it were not for the broader stewardship responsibility taken by society, the job would not exist.

In the cases in this study there appears to be a difference between public and private (both for-profit and not-for profit) sector actors concerning stewardship decision-making demand for environmental disclosure. Starting with not-for profit private sector organisations, this appears odd at first glance. Firstly, because environmental NGOs primarily have environmental objectives. Secondly, because the lack of demand in the two NGO cases in this study, as will be presented later, is not in line with the quite consistent findings of previous NGO studies. The NGOs in this study demand environmental information, but not environmental disclosure, while the NGOs in the exiting literature clearly appear to demand environment disclosure as well.

Even some of the private sector, for-profit, organisations appear to consider broader stewardship responsibilities. As will be shown later, all the private sector purchasers (cases 4-8) make environmental requirements, albeit rarely (in some cases), and (partly) due to regulations (in others). (The latter indicates that regulations are a transfer of public sector objectives.) In addition, as investments are often both profitable and enhance environmental performance, it might be difficult to separate the “stewardship” part. However, while both public sector and private sector purchasers demand some environmental information, they do not demand environmental disclosure. The findings, concerning for-profit and not-for-profit organisations, indicate that there is considerable complexity regarding stewardship decision-making demand. This includes the definition of the distinction between economic and stewardship objectives.

The finding of De Villiers and Van Staden (2010), that 80-90% of (private sector, individual) investors demand environmental disclosure for stewardship decision-making purposes, is not in line with the findings concerning private sector investors in the current cases, though there are no individual investors among them. It should be mentioned that

“information desired by users is likely to be an extension of that currently available”, and that research might be “biased against finding a result that environmental performance information is important to users’ decisions” (Deegan and Rankin, 1999:314).

The methodology of the current study, as described above, is probably more likely than a survey to discover whether information claimed as valuable to stakeholders is actually used.

Stewardship incentive demand

The extent of stewardship incentive demand for environmental disclosure is potentially much greater than resource allocation and stewardship decision-making demand. This is because its value is, at least temporarily, independent of reading or other types of use of the content of disclosure post-reporting. In case 23 above, the government clearly states that its demand for environmental disclosure is partly due to stewardship incentive mechanisms. However, it might be difficult to identify this type of demand from companies that do not read such disclosures. One indication might be the finding that stakeholders nevertheless do not want companies to stop disclosing this information. Since many of the interviewees understand and appreciate the value of stewardship incentive effects arising from reporting, it is only possible to illustrate a few interesting cases here.

Cases 11 and 13 are clear examples of stewardship incentive demand for environmental disclosure. Both stakeholders use documents and meetings, letters, conferences, etc. to communicate expectations of reporting (and environmental performance directly).

“We work specifically towards corporate reporting on certain priority areas. We have published documents that specify our expectations to the investees, our expectations as an investor... You can see that much of it concerns public reporting. ... We work in two ways: our public expectations are an important part, and we also target companies directly, we have dialogues with companies, more specifically, but those are not that frequent” (stakeholder 13).

Stakeholder 13 particularly emphasises an expectations document addressing companies' climate strategies, and has also held a conference for companies in a climate-related industry in order to learn, inspire and call on them to report (better). In the meetings with investees, stakeholder 11 addresses environmental reporting. “We can ask a lot of questions, such as ‘why are you not on a higher level, is it because it is hard, inexpedient?’, anything, but that does not mean that we are necessarily going to force them to improve, but then they understand that either they have a good explanation or... if it is a company that is not at the forefront in the field they can get a good hint from us.” These expressed expectations from a large owner are partly a stewardship incentive demand. The investor's directions explicitly states that, “clear expectations on this area will contribute to an additional professionalization of such [CSR] work.” Reporting or visibility, as quoted above, is important as incentives for management to change behaviour, ex ante reporting, e.g.

related to improved environmental performance. Stakeholder 11 emphasises that they “do not interfere in the daily operations of the company.” The regular meetings and reporting might appear as an ongoing monitoring of investees, and they claim they use environmental disclosure. Still, stakeholder 11 indicates that it is hard to identify particular decisions where it is used directly, apart from contributing to a general knowledge (unless something extraordinary should turn up). This means that the investor has got two measures left to influence companies’ actions: the general meeting of shareholders (e.g., selection of board members), and incentive mechanisms (e.g., reporting). Incentives are their preferred path, at least in order to improve environmental performance. Two potentially important differences between stakeholder 11 and 13 are that the former is a larger owner in, and has repeated meetings with, each company, which results in more power in the principal-agent relationship. The investor’s demand for reporting from investees might cause the latter to change behaviour.

Stakeholder 14 demands environmental disclosure from companies. Concerning decision-making, this is for the sole purpose of resource allocation, rather than stewardship. However, the criteria upon which the investor acts are politically decided, and put in place in order for society to protect the environment. Furthermore, it is future environmental performance that is assessed. Hence, letters from stakeholder 14 to investees, which clarify this and emphasise the importance of information, must be seen as stewardship incentive demand for environmental disclosure. An objective is to make companies improve environmentally, and the ex ante effect of reporting can contribute to this.

Several private sector investors (stakeholder 9, 10, 15, 16 and 17) provide little or no indication of a stewardship incentive demand for environmental disclosure (“we [companies in general] report ourselves to death”), despite the fact that most funds do have some ethical policies. According to stakeholder 15-17, that does not necessarily mean anything:

“Most fund managements have ethical considerations incorporated in their value bases, instead of having specific requirements for individual stocks in the fund. By using value statements (‘we shall preferably avoid’) ... general formulations on the topic, they avoid making absolute demand and rules for the fund managers. ... It is flippancy. ... If you [a customer] ask for it, it is lying in this drawer, we have got some values that form the basis of our management, where it says that we are not supposed to invest in child labour, mine producers, etc.” (stakeholder 15).

However, this is not the case with stakeholder 12. The investor has a fund with more explicit ethical standards, but environmental disclosure is used only indirectly, through work and decisions made by others. Still, the institutional investor wants such disclosures to be present, and supports actions that

might improve it. Similarly, both lenders (stakeholders 18 and 19) clearly want environmental disclosure to be present, and readily improved. Stakeholders can have various motives for a stewardship incentives demand for environmental disclosure. In these cases, stakeholders 18 and 19 appreciate good corporate governance as a key to profitability. Reporting, and its ex ante incentive effect, is still another measure that ensures management's focus on operational control, of which environmental issues are one piece. Still, the interviewees do not matter if changed behaviour improves the environment as a side effect.

In connection with audits and inspections, stakeholder 20 requests environmental disclosure, reads it, and often talks with the companies about similar topics. It is hard to identify exactly how the information is used, but it is clear that it has at least an incentive aspect. However, the isolated ex ante effect on company behaviour from this disclosure might be minimal, compared to the effects from discharge permits, (private) reporting of technical information and internal control information due to those regulations, and the authorities' own audits (of the physical environmental status) and inspections of internal control.

While economic considerations, rather than a reflection of a moral stand or an altruistic concern for the environment, might be stakeholder 18's motive for stewardship incentive demand, the opposite is often the case for NGOs. Stakeholder 21 is an NGO whose objective is highly affected by the environmental consequences of the operations of the GICS-sector consumer staples, while stakeholder 22 is an environmental NGO working with the same issues. Acting as environmental stewards, both use political lobby to improve environmental performance in the industry. Stakeholder 21 emphasises the importance of politicians *"setting the external conditions on how the industry operates."* However, while stakeholder 22 chooses to work closely and jointly with the industry to find solutions, stakeholder 21 consistently reports environmental incidents to the police, and keep up pressure on the industry through bad press: "It has been a policy; in almost 100% of the cases, we have done it [reported incidents to the police]. Unfortunately, the reports rarely lead to any consequences, but it is done mostly to place the subject on the agenda. Of course, it is picked up by the press." Increased political and general legitimacy risks are incentives for improved environmental performance. For stakeholder 21, the approach is selected due to the same cost-benefit considerations that cause them not to read environmental disclosure:

"... it is a capacity issue. It is a bit like the way we have seen the dialogue line as well: As an organisation, we have such limited resources. We cannot, in addition to all other tasks, sit in meetings that we feel would not lead to anything, but which make us an alibi so that the industry could say they

have a good dialogue. ... For us, and for most other environmental organisations ..., the attitude is that we have no dialogue with the industry as a single actor.”

The usefulness of reporting and collected data is an important topic, but this is not solely related to environmental disclosure. Stakeholder 22 does not read environmental disclosure either (unless hired to do it): “I have not had a need to look at any numbers.” Despite questions concerning the quality of reporting; lack of stewardship decision-making demand; and the fact that they prefer other approaches aimed at improving environmental performance, these stakeholders still want companies to make environmental disclosure. This is a vague indication of stewardship incentive demand for environmental disclosure.

A brief account of stewardship incentive demand

It is difficult to map incentive demand, especially for stakeholders that use environmental disclosure for decision-making. The fact that many stakeholders that do not use disclosure for decision-making purposes, yet still think that it has a value, is an important finding. The perceived value might lie in the ex ante effect of the reporting incentive mechanism (Gjesdal, 1981). However, it might also be, e.g., that they demand it because they know that others need it, or that they prefer transparency. This complexity should be further investigated.

Public sector demand

This study is not designed to be representative. Still, it is interesting to see the difference between public and for-profit private sector investors (including financial analysts) in the cases above. All have high financial returns as the primary objective. However, politicians seem to require that public sector investors, at least to some degree, should additionally consider a broader set of aspects – in line with taking a stewardship responsibility for society as a whole, not just on behalf of the owner (Chen, 1975). These stakeholders appear fully aware of this duality, e.g. stakeholder 11 (public sector investor):

“This is the government’s tool. ... Our approach is of course the owner’s. But additionally, and especially important concerning reporting, we see the information we need, but should also consider information for the outside world, since we manage community assets. In that way, there is a democratic aspect as well.”

On the other hand, the private sector investors seem to have difficulties relating to this.

“The smallest [investors] might be tempted by one of those [SRI-funds]. If you are saving £50 a month, it might be cool to save in a SRI-fund. Or if you are gigantic, such as the ‘Norwegian Oil fund’, but that is political, it is not fund management. They do not do it because they think it is profitable ... it is only politics behind it. ... It is not proven that it gives more money. I think it is rather the other way around.

If you limit your investment universe, you have to do worse than if all doors are open, if you ask me. At least the theory is like that ... it is less probable that you will beat the index. It has to be like that” (stakeholder 15).

“Once, ... we were pension fund supplier for the local council. It was a hype back in the beginning of the 2000s, with SRI. It was very political. It is some politicians in a local county saying that we are not to invest in child labour, pornography, weapons, gambling, tobacco, etc.” (stakeholder 16).

“We have got a mandate from our customers to create the highest possible return in the given market, as long as we stay within laws and regulations. Then that is ... we are ... you may call it unethical in that way” (stakeholder 17).

The latter quote brings forth another element that is common for stewardship and corporate social responsibility. For example, stakeholder 13 (public sector institutional investor), points to their directions, saying that this is what you “do voluntarily, beyond compliance with existing laws and regulations.” While stakeholder 11 emphasises environmental disclosure expectations that “provide much more information than these Norwegian regulations”, stakeholder 19 (private sector lender) explains their corporate social responsibility approach by referring to the fact that “there are so many laws that contribute to the bank doing the right thing.” Of course, in areas deemed important, politicians might introduce laws and regulations in order to promote stewardship behavior, as seen in cases 20 and 23. More recently, the authorities started focusing on the importance of procurement on environmental issues. By making the public sector play a pioneering role, the large aggregate volume of this procurement has potentially significant direct environmental effects. Additionally, side effects emerge, since suppliers have to make new requirements to their suppliers, and it inspires and educates others (on how) to buy green. Even though none of the suppliers use environmental disclosure (they use another source of information), all of them make environmental demands (albeit to different degrees). Hence, they are (becoming) stewards for the environment.

Neither stakeholders 1-3 (public sector B2B purchasers) nor stakeholders 4-8 (private sector B2B purchasers) read environmental disclosure (in that respect). The idea that environmental disclosure contains decision-useful information for buyers is absent. Stakeholders 7 and 8 hardly relate to it at all, and consequently have little or no stewardship incentive demand. The Norwegian procurement regulations and recommendations require public sector purchasers to make environmental considerations. However, all eight cases use environmental information (though to a differing degree). They retrieve information directly from potential suppliers through answers to specific questions in standardised bidding documents and online supplier databases: tailor-made information provided in cost efficient way (for the purchaser), probably influenced by the strict regulations of public procurement. This norm for obtaining decision useful purchasing information in

these large organisations (irrespective of public or private sector affiliation), clearly reduces the relevance of environmental disclosure, even though they might be environmental stewards.

While stakeholder 1's work with environmental requirements in connection with public procurement was clearly more developed than for stakeholder 2 and 3, the same differences appear in the private sector. Documentation and traceability of environmental issues (among other things) is so important to stakeholder 6 (related to the GICS-sector consumer staples), that databases are developed, where each participant in the supply chain is required to enter large amounts of data for each consignment in order to sell their products. This is (partly) down to (public sector) regulations. Then environmental disclosure is redundant for this purpose. Stakeholder 7 (related to the GICS-sector consumer staples) argues that, in the end, private household consumption patterns (e.g., what kind of packaging they prefer) determine what solution they choose, and what information they need, regardless of environmental attributes. Environmental information is therefore less important.

CONCLUSION

The objective of this study is to explore reasons why stakeholders demand environmental disclosure, i.e. what they are using it for. This is done by analysing multiple mini case studies according to a theoretical framework, which separates resource allocation decision-making demand, stewardship decision-making demand and stewardship incentive demand. As Gjesdal (1981) states, this framework does not necessarily capture all types of demand for environmental disclosure, but it clearly identifies some of its important elements. Looking at the three last columns of Table 2, it is clear that most of the 23 cases have at least one type of demand for environmental disclosure. Moreover, each of the three types of demand exists in at least some cases, and they appear alone or together in different combinations in different cases. There are cases that experience 0, 1, 2 or 3 types of demand. It seems that this framework is a fruitful supplement to research on demand for environmental disclosure, as it addresses the lack of systematic theorisation in previous research.

However, the motives or incentives underlying each type of demand might differ between cases. The findings concerning public sector affiliation and effects, or rather the differences between public and private sector (for-profit and not-for-profit) stakeholders, seem to capture important aspects of this variation. Cases in this study provide clear indications that the broad objectives of the public sector affect demand for environmental disclosure: politically decided responsibilities motivate stewards to act differently than they would otherwise have done – both externally, through regulations etc. (e.g., cases 6 and 23); and internally, through directions etc. (e.g., cases 11, 13 and 14), and by creating new offices (case 20). For the current cases, investors with public sector

affiliation assume broader responsibilities compared to those in the private sector. This is, most likely, the first user-study on environmental disclosure that makes a distinction between public and private sector demand, and especially within stakeholder groups. Another aspect briefly touched in this study is that the strength or importance of each type of demand might also vary between cases. Industry might be one relevant element in this respect.

In many cases, there is a demand for environmental information beyond the demand for environmental disclosure. Environmental information in general is outside the scope of this paper, and further investigation is left for future research. Moreover, it should be noted that this paper explores the demand for the *current* environmental disclosure, rather than focusing on demand for changes in the current disclosure practices. Even though stakeholders do not read or use the current disclosure, it does not mean that they do not demand environmental disclosure of higher quality or different content. Therefore, it is called for research on what kind of information stakeholders demand, i.e. why disclosure is or is not useful. Furthermore, there is a definite need for research exploring the fit between supply and demand for information, which is hardly examined in except for Deegan and Rankin (1999).

The reason why reporting is in demand is not trivial (Gjesdal, 1981). The cases included in this study reveal that decision processes or decision models determining what type of information that is or is not relevant and used, for different decisions, made by different stakeholders, at different times, and situations, are complex. The findings also indicate that it is difficult to identify, measure, or define different kinds of demand, i.e., the reporting incentive demand, and the distinction between economic and environmental objectives. Nevertheless, a contribution of this explorative study is as a foundation for future research, which should consider separating different types of demand, public and private (for-profit and not-for-profit) affiliation, industries, and use a sufficient detailing of stakeholder subgroups, when selecting variables to the equation. In order to investigate this further, it is important to include several stakeholder groups in future studies. Understanding these underlying aspects of demand is fundamental for knowing what types of disclosure stakeholders need and for what, whether changes in reporting practice are necessary, how to improve reporting practice, and, what measures (taken by stakeholders including the government – e.g. public pressure, law and standard regulations, enforcement, incentives, guidance and education etc.) that are best suited to make it happen.

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