Transparency and the sustainability reporting practice of Norwegian Companies

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EXECUTIVE SUMMARY

The world’s climate is changing, and companies around the world are irreversibly impacting societies and the environment. Regulators are increasingly turning to non-financial disclosure regulations as a tool to increase corporate transparency about social and environmental issues. The goal is to make companies accountable for their impact on their environment and to incentivize better corporate social and environmental performance. To achieve this, stakeholders need information on how well corporations perform on these issues. This study is aimed at finding out how transparent corporations are in disclosing quantitative performance measures. This is done in a Norwegian context, drawing a sample of companies affected by the 2013 amendment to the Norwegian Accounting Act. The amendment added requirements for non-financial disclosure for large companies in Norway. This study used a transparency framework to assess the transparency of annual reports from 2014. This revealed a varying degree of transparency on the different categories in the framework. Most importantly, this study found that transparency on environmental issues is alarmingly low.

Secondly, it found that the specificity of the Accounting Act may play a role in the variability of transparency across different issues. Therefore, there is a need for more knowledge on how the regulators’ tools are affecting performance.

Keywords: Transparency, CSR, Sustainability, Corporate Reporting, Non-financial Disclosure, Disclosure Regulation
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1 INTRODUCTION

The world is on a dangerous path. We are continuously emitting greenhouse gases that are causing global warming (IPCC, 2014). This in turn is irreversibly impacting ecosystems and increasing the risk of extreme weather conditions such as droughts and cyclones. The emissions are largely driven by our economic activity and energy use to fuel our lifestyle and increase wealth and living standards (IPCC, 2014).

While companies on one hand are providing jobs, goods and services our society demands, many companies on the other hand are further worsening the current environmental crisis. An important problem is that when information on companies’ environmental footprint\(^1\) is not available to customers, investors or society, then companies can exploit our largest common good with little or no consequences. In order to offset this information asymmetry, reporting requirements are implemented by governments around the globe (GRI, 2013). Systematic and transparent reporting can incentivize sustainable development because customers and investors may move spending and investments to more sustainable companies when such information is available (Pedersen & Døskeland, 2015), and because more transparent companies specifically attract large long-term oriented institutional investors (Eccles, Grant, & van Riel, 2006).

In the last decade there has been a large growth in the number of sustainability initiatives globally (Kiron, Kruschwitz, Haanaes, & von Streng Velken, 2012). International reporting standards are being developed and national and transnational political processes are at work to revise the reporting requirements for companies. In the last few years there has been a large increase in the number of companies publishing non-financial reports or including non-financial information in their annual reports (Ditlev-Simonsen, 2014), and today 93% of the largest 250 companies in the world report on their sustainability performance (GRI, 2015). Two of the most widely used reporting frameworks are the United Nations Global Compact and the Global Reporting Initiative (Ditlev-Simonsen, 2014).

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\(^1\) Such performance is variably referred to as “sustainability performance”, “CSR performance” or “ESG performance”. In this paper, the terms “sustainability”, “environmental, social and governance” (ESG), “non-financial” and “corporate social responsibility” (CSR) are used interchangeably, to describe reports with different degrees of focus on environmental, social and governance issues, or firms’ performance in these areas.
Political processes in the EU have resulted in several sustainability initiatives and in 2014 the EU Commission revised reporting requirements for the companies in the region (UNEP, GRI, KPMG and the Centre for Corporate Governance in Africa, 2013). The amended act requires non-financial reporting for the around 6000 companies listed on stock exchanges in the member states and the EFTA countries (Ditlev-Simonsen, 2014). Several countries have also amended their financial statements acts to require extensive non-financial reporting (UNEP, GRI, KPMG and the Centre for Corporate Governance in Africa, 2013). Norway added such requirements in 2013 (§3-3, 2013) affecting around 450 companies (Ditlev-Simonsen, 2014).

The Norwegian Accounting Act § 3-3 c now requires large companies to report on how they integrate human rights, labor rights and social conditions, the environment, and anti-corruption into their strategies and operations. One purpose of such requirement on non-financial reporting is to increase companies’ transparency and provide information necessary for decision-making to stakeholders such as customers, investors, creditors and regulators (Norwegian Ministry of Foreign Affairs, 2009). Another purpose is that it can work as an incentive to integrate environmental and social responsibility into companies’ strategies and governance (ibid.) (Eccles, Ioannou, & Serafeim, 2014).

Earlier research have studied the effect of non-financial reporting legislation on stock market variables (Cheng, Ioannou & Serafeim, 2014), sustainability disclosure legislations’ effects on reporting volume and quality (Serafeim & Ioannou, 2014), and compliance with the specific requirements of the Norwegian legislation (Ruud, Ehrenclou & Gramstad, 2008; Olsen & Orderdalen, 2014). The research in the Norwegian context found varying efforts on sustainability reporting, and Olsen and Orderdalen (2014) noted that reports did generally not include comparable results from the companies’ sustainability efforts making it nearly impossible to assess their sustainability performance. The regulators in Norway do not prescribe the use of a specific non-financial reporting standard to ensure comparability between companies. Incomparable reports may limit the impact and usefulness of non-financial reporting (Eccles, Serafeim, & Krzus, 2011) despite the reports being compliant to the law. To my knowledge, there is done little research on the comparability and transparency of non-financial reporting in a Norwegian context.

1.1 Research Question

The purpose of this study is to explore how open or transparent Norwegian companies are on their ESG performance, thus analyzing a fundamental purpose of the requirement of non-financial reporting in Norway. This is done by reviewing annual reports and annual non-
financial reports from Norwegian corporations affected by the amendment put into effect in 2013. This is important because the non-financial reports have not always fulfilled the requirements of the law (Olsen & Orderdalen, 2014; EY, 2014) and the information has not always been readily available or easily comparable for most stakeholders of the companies issuing these kinds of reports (Rea, 2015).

One key issue is that the Norwegian Accounting Act does not require the use of a specific standard or framework (§3-3, 2013), thus giving reporting companies many different possible ways of how to write the reports. This means companies can almost freely decide what indicators to use, what level of detail to write, and whether or not to include quantitative and comparable performance results. The risk is therefore that the usefulness and comparability of the reports may be undermined by the decisions and interests of the reports’ authors (Langer, 2006). By reviewing 25 non-financial reports and evaluating them from a transparency point of view, I will shed light on how well the reports fulfill the accounting law’s intention of providing “stock holders, customers and the society with better information on the company’s approach to CSR” (Norwegian Ministry of Foreign Affairs, 2009, p. 83, author's translation). With this in mind I have formulated the following research question:

“How transparent are Norwegian companies about their CSR performance in the annual reports for the accounting year 2014”.

Transparency in business is defined by Transparency International (2015) as making available information on rules, plans, processes and actions. It is generally held that transparent organizations’ actions and results should be visible so that the organizations can be held accountable for the actions being performed. In this paper, transparency is further narrowed down to include only quantitative and easily comparable information to better be able to distinguish between general non-descriptive statements and actual performance.

The Norwegian Accounting Act § 3-3 c breaks down corporate responsibility into issues regarding human rights, labor rights and social conditions, the environment, and anti-corruption. Frameworks such as the Global Reporting Initiative’s G4 and the principles of the UN Global Compact cover these issues and enable reporting companies to establish a standardized non-financial disclosure practice. With this in mind, I investigate the following sub-question to clarify the terms in the research question and to analyze transparency about CSR performance along four dimensions for which it is reasonable to expect companies to have quantitative data:
“How much quantitative and easily comparable information is publically disclosed by Norwegian companies about their corporate governance, labor conditions, health and safety, and environmental impact?”

This is investigated by reviewing the non-financial reports or integrated annual reports of a sample of the companies affected by the Norwegian Accounting Act § 3-3 c. The law is applicable for large companies. It is estimated that the law affected roughly 450 companies from 2013. A sample of 25 companies is selected from this population. The reports are evaluated using a set of questions regarding each of the four dimensions it is expected that the companies should have quantitative and comparable data, and each report is given a transparency score on the basis of how many of the questions that the public reports can answer.

This study is limited to public available reports for the accounting year of 2014, to reflect the information available to the companies’ stakeholders. I have not attempted to verify the accuracy or validity of the published information, since this would not reflect available information used by stakeholders in their decision-making.

The rest of the paper is structured as follows. Chapter 2 is devoted to presenting the conceptual framework of the paper. Chapter 3 outlines a short historical background for the development of international reporting frameworks and disclosure regulations. Chapter 4 covers a review of recent literature analyzing the effects of disclosure regulation on transparency and performance. Chapter 5 outlines the methodology for the empirical research of this paper and discusses the relevance of the framework used. Chapter 6 presents the results of the study, and the findings are discussed in chapter 7.
2 CONCEPTUAL FRAMEWORK

The term “corporate sustainability” is defined by Soppe (2007) as “a company’s ability to create long-term value by taking risks and opportunities from the economic, environmental and social developments”.

In this paper, the terms “sustainability”, “environmental, social and governance” (ESG), “non-financial” and “corporate social responsibility” (CSR) are used interchangeably, to describe reports with different degrees of focus on environmental, social and governance issues, or firms’ performance in these areas.

2.1 Corporate Responsibility

In this section I will discuss the conceptions of what corporate responsibility consists in, before outlining a broad definition of what responsibility means. The discussion leads to a framework of different levels or areas of responsibility for business. Because regulators want to increase performance and awareness through non-financial reporting regulations (Norwegian Ministry of Finance, 2012), it is important to understand what types of responsibility regulators are aiming at.

2.1.1 The Scope of Corporate Responsibility

“Few trends could so thoroughly undermine the foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as possible.” (Milton Friedman, 1962 quoted in (Morsing & Pruzan, 2007))

When discussing the concept of corporate social responsibility (CSR), it is only natural to begin with the well-known perspective of Nobel Laureate Milton Friedman. His shareholder perspective has dominated economic thinking for more than 40 years (Morsing & Pruzan, 2007). In the article “The Social Responsibility of Business Is to Increase Its Profits” (1970), Friedman argues that the social responsibility of companies is best preserved through maximizing shareholder profit, while paying taxes to the government and letting them take responsibility for social issues. First and foremost, this is due to Friedman’s division of responsibility between the corporation and governments, which suggests social issues are best handled by governments while business should focus on business. Friedman argues that to maximize shareholder value, it is in the self-interest of managers to treat stakeholders and
customers well to create long-term customer loyalty. Attending to other objectives might then seem as an unnecessary distraction.

The foremost critic of Friedman’s shareholder-centric perspective is Edward Freeman who in 1984 published a stakeholder-centric response (Jørgensen & Pedersen, 2015). Freeman (1984) argued that companies have a fundamental responsibility for the stakeholders affected by the companies’ operations, in the same way companies should be held accountable for their stewardship of their shareholders’ capital. This perspective therefore incorporates externalities as a major factor when considering the limits of companies’ responsibility. While the shareholder perspective focuses on the legal power of the shareholder within the limits of the law, the stakeholder perspective increases the scope to also take responsibility for the negative effects of the companies’ operations on the social and environmental landscape.

The consequences of the two perspectives becomes clearer in the cases where the interest of the firm would diverge from the interest of the company’s shareholders. A company’s interests lie in the long-term value it can create over its expected lifetime (ref. the definition of corporate sustainability in chapter 2.1), while Quarterly Earnings Calls in listed companies stresses short-term profits and growth in share price for the shareholders (Eccles & Serafeim, 2013). Focusing only on maximizing shareholder value, will therefore not always result in managers creating long-term value. Short-term oriented managers undermine Friedman’s fundamental assumption mentioned above; that managers’ enlightened self-interest will lead them to work for long-term customer loyalty.

2.1.2 What is responsibility?

This and the following three sub-sections explores the fundamental definition of what responsibility is and discusses the difference between having and taking responsibility. This distinction is important for understanding the underlying assumptions in Freeman’s stakeholder perspective (see chapter 2.2.1) and provides a framework for later discussions.

*Having responsibility does not mean that you take responsibility*

According to the Oxford Dictionary of English (2013) responsibility is defined as a state of being accountable or to blame for something, and as the ability to take decisions. Responsibility can be divided into several types, depending on whether it is ex ante or ex post responsibility, whether it is direct or indirect, and the scope of the responsibility (Syse & Olsen, 2013).
Ex ante responsibility is a responsibility that is defined prior to the actions taken based on a person’s role. The responsibility can be defined through for example expectations, contracts and regulations. When something has happened and one is looking for who caused the event to happen, or when someone takes on the obligation to clean up, then we are looking for ex post responsibility.

Secondly, responsibility can be divided depending on whether one actor causally made an event happen or if the actor was only partially contributing to it. This distinction can be quite controversial, because it questions what responsibility corporations should have for atrocities not directly caused by the company, but enabled by their operations. For example, should Norwegian companies operating in countries known for severe human-rights violations and large-scale corruption be held accountable for legitimizing or stimulating these violations?

Thirdly, responsibility can be narrow or wide in scope. A narrow responsibility means that a company should only be held accountable to the shareholders as long as they stay within legal and contractual limits in the region of operation, a perspective promoted by Milton Friedman. A wide responsibility means extending the accountability to a wider specter of stakeholders, like in the stakeholder perspective of Freeman.

This study focuses on the ex ante responsibility, that is the responsibility of companies by virtue of their role in society.

2.1.3 Level 1 Responsibility: Causal Responsibility

The concept of Corporate Social Responsibility is closely tied to the concept of externalities. Externalities are “indirect effects of consumption or production activity, that is, effects on agents other than the originator of such activity which do not work through the price system.” (Laffont, 2008). The problem of externalities is the foundation of the stakeholder perspective of Freeman (Jørgensen & Pedersen, 2015), and the problem becomes apparent when considering that companies’ use of common goods like the air or oceans (the natural environment) benefits the companies, but the costs are carried by society as a whole.

In the current legal environment companies in many cases do not hold ex ante responsibility for pollution or other externalities from their operations. This is especially apparent when the Norwegian Ministry of Foreign Affairs in the White Paper Corporate Social Responsibility in a Global Economy (2009, s. 7) defines Corporate Social Responsibility (CSR) as what companies do on a voluntary basis to integrate social and environmental considerations into their operations. This means that companies in Norway are not held legally accountable for
the issues defined as “CSR-related”. On the other hand, this formulation makes very much sense when reviewing the term “license to operate”, a term that is much used when companies place responsibility on the political level that created the rules of the game (De Geer, 2007). If CSR was defined using a specific national legal framework, what responsibility would a multinational company then have when operating within a different country with a shaky legal and political framework? Ex ante social corporate responsibility is therefore not easily defined.

Regardless of how legal frameworks define the *ex ante* responsibility of companies for their externalities, companies still hold *ex post* responsibility for the externalities because they *caused* them. This means that regardless of who are obliged to take responsibility to clean up the external effects of business, business has responsibility because they caused the effects.

2.1.4 Level 2 Responsibility: Society and Prerequisites

An important question when defining corporate responsibility is the division of responsibility between the public and private domain (Morsing & Pruzan, 2007). This is one of the fundamental questions in the CSR literature (Jørgensen & Pedersen, 2015). There are likely many social, legal and political conditions that are prerequisites for companies to successfully develop profitable operations. Morsing and Pruzan (2007) asks the appropriate question; to what extent should companies contribute to create conditions they themselves benefit from? Corporate responsibility then becomes more complex as the company is treated less like a simple legal entity and more like a corporate citizen (ibid.).

As corporations become increasingly global, the division of responsibility between private companies and the public institutions is challenged. Hans De Geer (2007) points out that there does not exist a global political power defining global legislation. Many companies operate in countries with weak social, political and/or legal structures, and have resources that exceeds the means of many of these countries. De Geer therefore argues that companies must do more than merely comply with the laws in these countries.

De Geer’s view means that especially multinational corporations should contribute to the creation of societal conditions that benefit all companies, instead of exploiting the short-term opportunities found through the weak legal structures. Matten and Crane (2005) calls this kind of responsibility for corporate citizenship, were corporations work as providers, enablers, and channels of social rights. Corporate citizenship in practice involves corporations filling the gap where governments fail to provide or facilitate public services (ibid.). Matten and Crane
however, point to important concerns regarding who a corporate citizen should be held accountable to. Corporations are normally held accountable to their shareholders, and not to the public as the government they fill in for is.

The moral reasoning for Hans De Geer’s position is excellently summarized in the World Commission on Environment and Development’s definition of sustainable development; “sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs.” (Quoted in (Tencati, 2007)). Exploitation of weak legal structures means that profit is gained by the company today without regard to the present or future generations in these areas. Such opportunism is therefore not compliant with sustainable development.

An important perspective on this level of responsibility is the concept of Creating Shared Values (CSV) by Michael E. Porter and Mark R. Kramer (2011). The CSV perspective is about recognizing that improved social conditions may have benefits for the company. Porter and Kramer illustrate their perspective by contrasting it to the concept of Fair Trade. A Fair Trade approach would reduce company profits (or increase the price to consumers) to offer local farmers higher prices for their crops, typically resulting in a 20-30% increase in their salaries. On the other hand, a CSV approach would be to invest in measures that increase the farmers’ efficiency, yield, product quality and sustainability, benefiting both the farmers and the firm. Instead of focusing on redistribution, a CSV investment “is about expanding the total pool of economic and social value” (Porter & Kramer, 2011, s. 5).

2.1.5 Level 3 Responsibility: Philanthropy

In Jørgensen and Pedersen’s book Responsible and Profitable (2015), they present the view that companies can both shine light and casts shadow onto the social and environmental landscape. Shining light and casting shadows are used as metaphors for positive and negative externalities. While the metaphors are quite useful, the metaphor of shining light is limited in the sense that it makes no clear distinction between actions that affect a company’s operational efficiency and profitability by creating shared values, and actions of redistribution and philanthropy that only affect a company’s reputation and brand. This distinction is important because it seems to affect how corporations react to regulation and activism. Malaysian companies for example tend to perceive CSR activities only as philanthropic initiatives, and therefore overlook the opportunity to integrate responsibility initiatives into their core business model (Serafeim & Ioannou, 2014).
Jørgensen and Pedersen (2015) describes three continuums in CSR; motivation (extrinsic and intrinsic), integration (degree in which CSR affects core operations), and effect (degree of effect on profitability). Philanthropic initiatives are separated from Shared Value initiatives based on this continuum, where philanthropic initiatives do not affect the corporations’ core operations. Despite this separation, philanthropy may effect profitability by increasing brand recognition, improving employee morale and productivity, and overcoming regulatory obstacles (Smith, 1994).

In sum, companies can take responsibility for something that they are not obliged to (ex ante responsibility), have not causally responsibility for (ex post responsibility), and that does not have a positive effect on their own core activities (CSV). In other words, we say that companies take responsibility when they do more than society could expect (Syse & Olsen, 2013). A good example of this type of responsibility is the company TOMS, that donate a pair of shoes to children in need for each pair of shoes sold (TOMS Shoes, 2015).

2.2 Transparent Reporting

Regardless of to what extent companies act responsibly or take on responsibility, they may still differ in the degree to which they are transparent on their social and environmental performance. This section therefore discusses what transparency means, and how systematic and transparent disclosure is one possible solution to the problem that those who are responsible (ex post/causal responsibility) does not take responsibility (ex ante responsibility). This section positions and focuses the study by giving an account for why transparency is an important tool for achieving better corporate responsibility performance.

2.2.1 What is transparency?

Transparency can be defined as “timely and reliable economic, social and political information, which is accessible to all relevant stakeholders” (Kolstad & Wiig, 2009), and has long been understood as synonymous to the idea of openness (Ball, 2009).

There can also be several types of organizational transparency (Ball, 2009). Political transparency is openness on the goals and purpose of the organization. Economic transparency is openness on the technical factors involved in making a decision, for example the elements for calculating a credit score. Procedural transparency is openness on the procedures involved in a decision, for example the board’s voting procedures. Operational transparency is openness on performance. The empirical part of this study will focus mainly on operational transparency.
The definition of transparency is excellently summarized by Transparency International: “Transparency is about shedding light on rules, plans, processes and actions. It is knowing why, how, what, and how much.” (2015)

2.2.2 What are the Advantages of Transparency?

Transparency ensures that business leaders and other decision-makers’ actions are visible and that others can hold them accountable (Transparency International, 2015). Legislation requiring more transparency make society’ expectations clear, and is an important tool to encourage socially and environmentally conscious practice (Norwegian Ministry of Foreign Affairs, 2009). With clear lines of accountability, unacceptable practice becomes more difficult to justify (Bandura, Caprara, & Zsolnai, 2007).

Increased transparency may lead to less moral disengagement from the acts done in the name of corporations and the stakeholders they affect, therefore encouraging more conscious practice (Bandura, Caprara, & Zsolnai, 2007). Transparency is therefore morally important because it enhances an attitude of honesty and commitment to truth (Dubbink, Graafland, & van Liedekerke, 2008), and can transform into more conscious behavior because clearly seeing the consequences of decisions made may evoke empathy (Bandura, Caprara, & Zsolnai, 2007).

Allocative efficiency is enhanced by transparency because it enables customers to choose the products that is better on dimensions that are important to them, and it allows for companies to differentiate themselves from bad CSR performers (Dubbink, Graafland, & van Liedekerke, 2008).

For business to flourish it is important to build trust and good relations with customers and other stakeholders. Transparency may be a way to show respect to stakeholders and is crucial when implementing initiatives that are aimed at improving reputation (Dubbink, Graafland, & van Liedekerke, 2008). When companies’ activities affect stakeholders’ interests, they should have a reasonable right to information (ibid.). Systematic and transparent reporting can therefore be an important tool for companies to build good stakeholder relations.

2.2.3 What are the Disadvantages of Transparency?

Obtaining information may be costly and difficult for corporations. This may be especially true for CSR related information, because some aspects of CSR are difficult to measure (Dubbink, Graafland, & van Liedekerke, 2008). Several aspects, such as environmental
indicators, are easily quantifiable, but may still be difficult to obtain for many companies because measurement has not yet been standardized to the same degree as financial information has been. On the other hand, new technology is rapidly diminishing the cost of measurement (ibid.).

Disclosure regulations mandating more transparency may backfire as the regulations in themselves can signal distrust (Dubbink, Graafland, & van Liedekerke, 2008). This signal can therefore promote an attitude of minimum compliance in corporations, creating resistance and distance between management and stakeholders.

Transparent self-disclosure may be used as a “vaccine” against some of the negative effects of being targeted by NGO activism (Reimsbach & Rüdiger, 2013). From a risk perspective, this is an advantage as self-disclosure reduces the risk of being exposed by third-parties. From a responsibility perspective, this is negative because campaigns against perceived bad performers may not lead to necessary changes.
3 HISTORICAL BACKGROUND FOR CORPORATE SUSTAINABILITY REPORTING

This chapter will give a brief overview of the most important drivers for the growth in sustainability reporting; market-based, societal, political, regulatory and ethical drivers for non-financial disclosure (Vormedal & Ruud, 2009). Next, this chapter will describe two of the most important international non-financial reporting initiatives. The chapter concludes with a brief review of the political and regulatory drivers in Norway.

3.1 Drivers for Non-Financial Reporting

Vormedal and Ruud (2009) explains that demand for non-financial information has increased with the growth in social responsible investment funds, creating market-based pressure on companies to disclose more information and for analysts to use such information. A major market-based driving factor in a Norwegian context has been the Government Pension Fund – Global with its ethical standards for companies in its portfolio (UNEP, GRI, KPMG and the Centre for Corporate Governance in Africa, 2013).

Societal drivers stem from pressure from stakeholder groups (both internal and external) to make companies disclose information on how company operations affect the stakeholders’ interests. This driver is related to the rising arguments that effective stakeholder management increases firm performance, and that transparency helps improve reputation (ibid.).

Politics and regulations have placed expectations on firms to become more transparent, especially through “soft-law” tools were companies are required to disclose information on how corporate responsibility is integrated into the company, or admit that it is not (ibid.). The establishment of international standard-setting organizations for non-financial reporting is relevant in this context, because these standards make non-financial reporting more useful and because they are referenced in the regulations (see Accounting Act § 3-3 c).

Lastly, Vormedal and Ruud (2009) points to the ethical driver, as companies’ boards are gradually accepting the view that companies should be held accountable a wider range of stakeholders.

3.2 International Non-Financial Reporting Initiatives

Initiatives for international non-financial reporting standards originated in the US and Europe during the 1960s and 1970s, driven by a renewed awareness of responsibilities that the governments were not able to fulfill (Serafeim & Ioannou, 2014). Two of the most well
known reporting initiatives, and the only two standards mentioned in the Norwegian Accounting Act (§3-3, 2013), are the UN Global Compact (UNGC) and the Global Reporting Initiative (GRI). Because reporting instruments that transcend national boundaries can improve the comparability of reports (UNEP, GRI, KPMG and the Centre for Corporate Governance in Africa, 2013), the two initiatives are discussed below.

3.2.1 United Nations Global Compact (UNGC)

In 1999 the UN initiated the Global Compact (UNGC) with the goal to create a sustainable and inclusive global economy (UNGC, 2015). The UNGC provides a normative framework to help companies shape their sustainability vision (UNEP, GRI, KPMG and the Centre for Corporate Governance in Africa, 2013). The idea is that companies align their operations to ten fundamental principles related to human rights, working conditions, the environment and anti-corruption (see Table 1).

Table 1 The United Nations Global Compact Principles.

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

Today UNGC is the largest policy initiative for businesses committed to these principles (UNEP, GRI, KPMG and the Centre for Corporate Governance in Africa, 2013), with 8343 supporting companies at the time of writing (UNGC, 2015). Companies supporting the UN Global Compact (“signatories”) must annually and publicly publish a Communication on Progress, and they recommend the use of the Global Reporting Initiative’s framework for these reports (Norwegian Ministry of Finance, 2012). Failing to publish Communications on Progress results in the companies’ status being changed to “non-communicating” and can
eventually lead to expulsion from the list of signatories (UNEP, GRI, KPMG and the Centre for Corporate Governance in Africa, 2013).

3.2.2 The Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) was formed in 1997 by the UN Environmental Program (UNEP) and several of its partners (Global Reporting Initiative, 2015) with the goal of developing a reporting standard for the “triple bottom line” (economic, environmental, and social performance) that would be on the same level as financial reporting (Serafeim & Ioannou, 2014). GRI has developed a framework of detailed reporting indicators to help reporters make valuable non-financial reports that matter to their key stakeholders (Global Reporting Initiative, 2013, s. 3). The idea behind GRI is that an internationally agreed upon framework for non-financial reporting will make abstract issues more tangible, enable non-financial reports to be accessible and comparable to key stakeholders, and encourage transparency and consistency that is required to make information useful (Global Reporting Initiative, 2013).

GRI launched their first version of the reporting standard in 2000, with the last iteration being released in 2013 which integrated the 10 UNGC Principles into the framework (Global Reporting Initiative, 2015). The framework is extensive with 150 indicators covering economic, environmental and social issues (Global Reporting Initiative, 2013). Companies using the framework are required to perform an analysis identifying the issues that are material to the company and its stakeholders, in order to reduce reporting volume and increase relevance. In addition, companies can choose to be in accordance with only the core indicators, or the comprehensive list of indicators. All companies using the reporting standard must transition to the latest version (G4) by 31.12.2015 (Global Reporting Initiative, 2015).

3.3 Non-Financial Disclosure Regulation in Norway

The Scandinavian private sector is widely recognized for high quality corporate reporting (Serafeim & Ioannou, 2014) and corporate responsibility (Vormedal & Ruud, 2009). Still, studies show major shortcomings in compliance to non-financial reporting requirements (Olsen & Orderdal, 2014; Vormedal & Ruud, 2009; Norwegian Ministry of Foreign Affairs, 2009; EY, 2014; 2015), as well as a lack of understanding of the concept of CSR and little knowledge of international non-financial reporting standards (Norwegian Ministry of Foreign Affairs, 2009).
The well-known White Paper *Corporate Social Responsibility in a Global Economy* by the Norwegian Ministry of Foreign Affairs (2009) outlined global challenges and put CSR as a central tool for the international competitiveness of Norwegian companies. It discussed companies’ responsibility for the development of society in addition to traditional value creation. To develop and improve companies’ CSR practices the paper stated that systematic reporting was needed, but it was later acknowledged that it is difficult to find legal mechanisms that directly effects the business sector’s awareness (Norwegian Ministry of Finance, 2012).

On the basis of the White Paper, the Norwegian Ministry of Finance proposed changes to the 1998 Accounting Act to add a requirement for large companies to report on how they integrate respect for human rights, labor standards and working conditions, taking environmental concerns into account and combating corruption. The existing law before the proposal required reporting on issues related to working conditions and gender (non-)discrimination, and reporting on environmental issues was only required if the company had extensive impact on the environment (Norwegian Ministry of Finance, 2012). The changes to the Accounting Act was put into effect on 1. January 2013 (§3-3, 2013).

One of the purposes of the broadening of the reporting requirements was that the committee claimed it should result in increased awareness and taking of social and environmental responsibility (Norwegian Ministry of Finance, 2012). To achieve this the committee noted that it was important that the reports includes more than just whether the companies have ethical guidelines or not. In essence the committee aimed at increasing openness in non-financial reporting.

Despite the regulator’s efforts to promote non-financial reporting, researchers claim that the government has failed to develop an adequate policy framework (Vormedal & Ruud, 2009) and that the regulations lack adequate guidelines for practical use (Olsen & Orderdalen, 2014).

The Norwegian law is made applicable for large companies according to the definition in the accounting law, covering public limited companies, listed companies, banks, financing companies and their parent companies. An exception is made for certain public companies. This resulted in around 450 companies being affected by the law in 2013. (Norwegian Ministry of Finance, 2012).
4 EXISTING RESEARCH

Several governments claim that increased transparency in and volume of non-financial disclosure will lead to better CSR related efforts (Norwegian Ministry of Foreign Affairs, 2009), and that this will increase the companies’ competitiveness and performance (European Commission, 2014; Erhvervs- og Selskabsstyrelsen, 2011).

This chapter will first explore the question; do such claims hold water? This is done by reviewing literature on several underlying questions; does CSR efforts increase corporate performance? Does reporting increase CSR efforts? And, does non-financial disclosure regulation improve reporting?

Secondly, this chapter will give a brief overview of research on non-financial reporting practice in Norway. The existing research done on these questions lays the foundation for this study, by outlining a possible link between transparency in non-financial reporting and corporate performance, and by showing where more knowledge is needed in the Norwegian context.

4.1 Does CSR Increase Financial Performance?

Margolis and Walsh (2001) searched through thirty years of academic research to assess whether a positive link between social and financial performance exists. They found much research indicating a positive relationship, but raised methodological concerns regarding many of these studies. It is pointed out that few analyses give way for conclusions on causality, and the difficulty of finding valid measures of social performance is emphasized.

Orlitzky et al. (2003) performed a quantitative and “more rigorous” (page 403) meta-analysis of 52 studies in this field. This was done in response to the research concluding that the evidence of a positive relationship between social and financial performance was too variable to draw general conclusions. The study found a positive correlation between social and financial performance, but also that mediating factors, such as reputation, were involved. Previous studies, including Margolis and Walsh (2001), were sharply rebutted by accounting a significant share of the variability in those studies to sampling and measurement errors.

Carroll and Shabana (2010) also reviewed several of the many studies that have examined the relationship between CSR initiatives and firm performance. They found studies based on two different views of the relationships between CSR initiatives and firm performance; a narrow view looking for the direct links between CSR and financial performance (as in the Margolis
and Walsh study (2001)), such as direct cost savings or sales increases; and a broad view (as in the Orlitzky et al study (2003)) looking for both direct and indirect links between CSR initiatives and financial performance. The studies with the broader views found more positive relationships between CSR and firm performance through mediating variables, coming to the same conclusion as Orlitzky et al, that the important relationships between social or environmental and financial performance are not direct. As companies, stakeholder needs, and contexts are very different, it is naturally expected that CSR is approached very differently by companies, and that they in return reap very different results. According to the review, CSR have four different effects on firm performance, and these will be discussed in turn below.

4.1.1 CSR’s Four Different Mediating Effects on Firm Performance

Some studies in the review by Carroll and Shabana (2010) found that CSR initiatives could reduce costs and risks for companies. Reduced operating costs could be obtained partly due to gaining tax benefits or avoiding strict regulations. Proactive engagement on environmental issues could also lower the cost of complying with new environmental regulations. Examples of lawsuits against firms with less than adequate standards in the value chains, showed that proactive engagement could reduce firm risk (ibid.).

CSR initiatives could also strengthen firm legitimacy and reputation, by demonstrating that the firms could meet diverse stakeholder needs. This is argued to strengthen brand loyalty and attract investments. This argument is further enhanced by Eccles et. al. (2006), stating that for example through active communication about a company’s internal control system, a company can help establish and maintain a strong reputation. In one of the reviewed studies, consumers had explicitly claimed that their purchasing behavior had been influenced by CSR reputation of firms, showing the potential financial reward for firms (Carroll & Shabana, 2010).

Some firms may be able to build competitive advantage based on their CSR efforts, due to attracting more talented employees, gain customer loyalty, and obtaining better product differentiation (Carroll & Shabana, 2010).

By reconciling the differing stakeholder demands and creating win-win situations would also benefit firms financially. This could either be through finding opportunities to profitably satisfy stakeholders’ demands, or by gaining support from stakeholders through its CSR initiatives that allows the firm to pursue new profitable ventures. An example of the latter was the Novo Group that gained support for its business involving genetic modification, while
Monsanto experienced great consumer resistance for its business in a similar field (Carroll & Shabana, 2010).

The above meta-studies showed that finding valid measures for social performance may be difficult for researcher, which may help explain why managers find it difficult to explain the financial importance of sustainability issues or find useful information to back up such claims (Eccles & Serafeim, 2013). The latter two studies seem to agree that there exists a positive relationship between social and financial performance, but that the relationship is indirect.

Later studies have further strengthened the above conclusion. Eccles, Ioannou and Serafeim (2014) found that companies that implemented sustainability policies (statistically) significantly outperformed companies without such policies in the long-term. Khan et al (2015) found that companies with higher performance ratings on material issues outperformed companies with lower ratings. They also found that companies with higher performance ratings on immaterial issues did not outperform the companies with lower ratings on those issues.

4.2 Does Reporting on CSR Issues Lead to Better Performance on CSR Issues?

A performance-disclosure gap was found in one study (Font, Walmsley, Cogotti, McCombes, & Häusler, 2012), indicating that more reporting is not necessarily associated with better performance. On the other hand, this study only focused on the disclosure of policies and not on reporting of results or metrics. This can potentially conceal differences in management approach to CSR related issues.

Another study (Eccles & Serafeim, 2013) focused on the reporting of policies and results in integrated annual reports, and found a positive relationship between reporting on environmental, social and governance issues and the score on indicators of quality of management on these issues. Other studies have also found positive associations between the level of voluntary sustainability disclosure and environmental performance (Clarkson, Li, Richardson, & Vasvari, 2008) and commitment to stakeholders (Michelon, 2011)

4.3 Does Non-Financial Disclosure Regulations Improve Reporting?

4.3.1 Is Disclosure Volume Increased?

Studies of companies in China and South Africa have shown that regulations mandating disclosure of non-financial information increased the volume of non-financial information in
corporate reports (Serafeim & Ioannou, 2014). An important question then is; does increased volume of reports imply increased information quality? This question is not directly answered in the reviewed literature, but studies of the effects of non-financial disclosure regulation in Denmark suggest that increased volume was associated with increased reporting quality (Erhvervs- og Selskabsstyrelsen, 2013). Denmark also saw a significant, though expected increase in the number of first-time reporters on CSR-related issues. 43% of the reviewed companies published non-financial reports for the first time in the first year after the regulations (Neergaard & Pedersen, 2009).

4.3.2 Are Reports Compliant with Regulations?

A study of non-financial reporting in Norway before 2013 (Vormedal & Ruud, 2009) revealed that merely 10% of the reviewed companies complied with the regulations of non-financial reporting at the time. Studies of non-financial reporting in Denmark (Erhvervs- og Selskabsstyrelsen, 2013) following the new regulations on non-financial reporting, found that 44% of the companies were compliant with the regulations. 97% of the reports in the Danish study included some information on the required issues, but all did not disclose information on each of the required dimensions. The staggering number of reports that were incompliant in both Norway and Denmark reveal important issues with the regulations themselves or with difficulties in the reporting process.

The low rate of full compliance could be a symptom of a lack of an adequate policy framework for responsibility and reporting, that media and society has not been enough involved in public scrutiny, or that the regulators insufficiently monitor compliance (Vormedal & Ruud, 2009).

4.3.3 Are Reports Using International Reporting Frameworks?

It is important to note the relevance of the absolute increase in number of reporters of non-financial information in Denmark. If non-financial information is to be useful to investors and other stakeholders, it must first be available. Secondly, disclosed information must also be comparable if it should be widely useful (Rea, 2014) (Eccles & Serafeim, 2013). As reporting frameworks are still being developed and varying in use, legislation has proven to work as an important driver for demand for the frameworks (Global Reporting Initiative, 2015), creating a virtuous circle of demand, feedback, and development.

Two of the four countries in the study by Serafeim and Ioannou (2014) did not see increases in reporting volume. These two countries did however already have a sizable non-financial
reporting volume before the regulations, and one of the countries had an upswing in adoption of international reporting guidelines while the other saw increased use of CSR related demands in the supply chain management. In the three consecutive studies in Denmark by Erhvervs- og Selskabsstyrelsen (2013) an increase in the number of signatories to the UN Global Compact and the use of GRI Reporting Guidelines was found. Still the numbers were relatively low, 20% were signatories to the UNGC and 25% used GRI in 2011.

4.3.4 Is Disclosure Transparent and Comparable?

Regarding the transparency of the reports, a good indicator would be if the reports included negative information about the firms’ performance. In the first year after the regulations in Denmark, no reports were found to include negative information, while 29% included such information two years later (Erhvervs- og Selskabsstyrelsen, 2013), indicating a substantial increase in disclosure transparency from the regulation. The researchers also noted in their analysis that 50% of the companies chose to be more transparent in 2010 than in 2009 (Erhvervs- og Selskabsstyrelsen, 2011). It is possible that in an environment where all companies hide information, it would be very damaging for the first companies to disclose negative information. When regulation mandates all large companies to disclose non-financial information, such an environment might change, like the studies seem to reveal in Denmark.

The three studies from Erhvervsstyrelsen (2013) showed that quantitative indicators were used by 38% of the reviewed companies in 2009, and this number did not increase in the subsequent two years after the regulations. On the other hand, the share of these companies using the GRI guidelines increased significantly. This shows a relatively low transparency on actual performance (low usage of quantitative indicators), but an increasing comparability of the information from those who disclose such information (high usage of standardized reporting framework amongst those who use quantitative indicators).

4.4 What Is the State of Non-Financial Reporting in Norway?

4.4.1 Disclosure Volume and Quality

A EY study (2014) found a substantial increase in the number of CSR reports in the first year (2013) after the non-financial disclosure regulations took effect in Norway compared to the year before. EY found a significant improvement from 2012 to 2013 in the reporting on guidelines, a good improvement in reporting on implementation and results, and only marginal improvements in reporting on ambitions and expectations for the future. They did not find any increase in reporting volume in 2014 (EY, 2015). A PwC study (2015) of the 100
largest companies in Norway found that the quality of the reports varied a great deal, with 65 of the 100 companies being classified as low or mediocre on “reporting maturity” for the accounting year 2014. In sum, the three studies found a relatively low volume and quality of non-financial disclosure in Norway in and prior to 2014.

4.4.2 Compliance with Regulations

A study of non-financial reporting developments from 2012 to 2013 (Olsen & Orderdalen, 2014) showed that only 16% (5 companies in the sample) were compliant with the new regulations. In addition, two of these companies fulfilled the requirements by stating that they did not have any guidelines on the five dimensions of the Accounting Act § 3-3 c: human rights, labor rights and social conditions, the environment, anti-corruption. The study also noted that the only three companies that were fully compliant with the new regulations (disclosed information on all dimensions), were also compliant in the year before the law took effect. These findings put the effects of the law into question, since the “good” reporters were already “good” before the regulations, and no other companies improved enough to comply with the new regulations in the first year. These findings support the findings of Vormedal and Ruud (2009) that found only 10% compliance rate before the new regulations.

PwC (2015) noted in a similar study for the accounting year 2014 that 43 of the 100 sampled companies in their study were affected by the Accounting Act § 3-3 c, but as many as 15 (35% of the affected companies) of them were completely lacking information on one or more of the categories required by the Act (human rights, labor rights and social conditions, the environment, anti-corruption). This means that at least 15% of the reviewed companies were not compliant with the regulations in 2014. In the EY (2015) study for the same year, 40% of the studied companies did not adequately report their guidelines on the four CSR dimensions in the law or how these were implemented, 46% did not adequately report results, and 60% did not report adequately on ambitions for future improvements. This result reveals that as many as 60% of the companies affected by the non-financial disclosure regulations may have not been compliant in 2014.

Despite the depressing results on compliance from the studies discussed above, the assurance statements attached to the reports still claimed that the reports were compliant (Olsen & Orderdalen, 2014).

Vormedal and Ruud (2009) point out that the Norwegian government has not further developed the disclosure requirements with an adequate policy framework or practical
guidance, and also lack in compliance monitoring. This fact is in contrast with Danish government’s quick publication of explanations and guidelines for their corresponding regulation (Olsen & Orderdal, 2014), and gradually increasing compliance (Erhvervs- og Selskabsstyrelsen, 2013).

4.4.3 Disclosure Transparency and Comparability

PwC (2015) found that 51% referenced the GRI Guidelines, and also found that 44% of the companies had quantitative goals and KPIs, but it is unclear how many of these companies disclosed any of these quantitative results. Olsen and Orderdal (2014) found that several companies in their sample were using standard phrases stating that the company did have guidelines for caring for the environment, and that they were integrated into all parts of the organization, but that later failed to describe how the guidelines were implemented and results. Only half the companies that stated that they had guidelines for the four categories included information on how these guidelines were implemented and results from this. In sum, there seems to be ample room for improvement on transparency in general and on quantitative indicators in particular.
5 Methodology

This chapter covers the methodological choices made in the study. In the first section, I will lay out the research design used in the study. Thereafter, I will discuss the sampling procedure used when choosing which companies to analyze. Third, I will discuss the data sources used. Finally, I will discuss the process and rules used for quantification of the data sources.

5.1 Research Design

5.1.1 Design choices

According to Ghauri & Grønhaug (2010, s. 56) research problems have different levels of structure depending on how well the problem is understood and the amount of flexibility the researcher needs in order to find an answer. While earlier research have indicated that finding valid measures for ESG performance is difficult (Margolis & Walsh, 2001), newer research have found that this is improving (Khan, Serafeim, & Yoon, 2015). Therefore, this study can take a more structured approach to the research problem using a variables from earlier research, and it may be appropriate with a descriptive research design (Grønhaug & Ghauri, 2010, s. 56).

This study will analyze written reports which mostly consists of qualitative textual data, as well as some quantitative data. The focus will be on a qualitative review of data in its natural context, and apply the transparency framework to give a score on how well each category and concept in the framework is covered in each of the non-financial reports.

By reviewing several non-financial reports and evaluating them from a transparency point of view, it might be revealed how well the reports fulfill the accounting law’s intention of providing “stock holders, customers and the society with better information on the company’s approach to CSR” (Norwegian Ministry of Foreign Affairs, 2009, p. 83, author's translation).

The analytical process must handle the data in such a way that it is possible to draw conclusions (Gronhaug & Ghauri, 2010). In this study, the purpose is not to develop new categories, but rather applying existing categories to the data. It is therefore important to create and follow specific procedures and rules when performing the review (Gronhaug & Ghauri, 2010). For each category the responses in the reports are given a score to dimensionalize and give more meaning to the use of the categories (Gronhaug & Ghauri, 2010). This may also help identify how far the reports have to go in order to be sufficiently transparent.
5.1.2 Limits of design

Because this study uses a cross-sectional design it is only capable of giving a snapshot or the status quo of a few large companies’ reports. This limits the scope of conclusions that will be possible to draw based on the results. On the other hand, the study may have the potential to reveal to stakeholders the state of reporting of some of the largest companies in Norway. In this way, the study might provide insights on how much relevant and comparable information the companies provide to their shareholders, society and other stakeholders, compared to the other companies in the sample. By comparing the non-financial reports, it is also possible to get an indication of what information is left out.

This study will use a set of indicators based on an existing transparency index (Sustainability Data Transparency Index - SDTI (Rea, 2015)). By doing this, the study is relying on the validity and reliability of the concepts, factors and measures in the existing SDTI index. The SDTI has been peer-reviewed by industry actors and experts in South Africa (Rea, 2015), and I have therefore not attempted to reassess the SDTI’s validity claims. The current author acknowledges that future analyses invalidating certain aspects of the SDTI would undermine some of the theoretical foundation for this study.

5.1.3 Challenges: Objectivity, reliability and validity

To achieve a high level of objectivity in this study, I will try to avoid a more subjective scoring system. If I for example would give scores based on the underlying performance stated in the reports, I would not only risk being influenced by existing impressions of the companies, but would also give significant room for disagreement on the criteria for the scoring system. Comparison on the basis of “raw ratio scale data” (i.e. emissions of CO$_2$ equivalents in absolute tons) can also be problematic, even though many reports contain such data and it allows for advanced statistical analysis (Gronhaug & Ghauri, 2010). The main issue is connected to what standard of comparison to use, and how to score a company’s emissions in relation to other companies. It is expected that CO$_2$ emissions would vary depending a number of factors, including company size, industry, and efficiency.

Trying to establish a common standard of comparison for all indicators in the framework would not be suitable within the limits of a master thesis. Therefore, the study will be focused on whether or not easily comparable information is present in the reports, rather than evaluating the underlying performance. Evaluating the underlying performance would significantly increase the scope of the research, and therefore drastically reduce the possible
size of the sample and eliminating the usefulness of this report. The more “objective” way of scoring the information is intended to reduce the threat to internal validity caused by subjective researcher bias, increasing confidence that the results given are indeed true (Grønhaug & Ghauri, 2010).

5.2 Research sample

From 2013 around 450 large companies in Norway have been required to publish a non-financial report (Norwegian Ministry of Finance, 2012). These reports must be sent to The Accounting Registry [Regnskapsregisteret] within one month of approval (§ 8-2 first section). The service Proff Forvalt (www.proff.no) provided a list the population of companies that fit the criteria of the law, and the public annual reports was found on the investor information pages of the sampled companies.

Since the population consists of around 450 companies, a review of a sample of 25 companies (>5% of the population) would be considered sufficient to be able to find characteristics regarding the population. This sample size would also be suitable in the master thesis format, given the time and resource constraints.

The method used to draw the sample from the population is called “systematic sampling” (Grønhaug & Ghauri, 2010). The aim is to draw a sample that is representative for the whole population, and this is done by sorting the population of companies by operating revenue and choosing every 18th company in the list to get a sample of 25. A successful sample draw should have a sufficient spread in operating revenue and represent as many of the population’s industries as possible.

The sample is shown in Table 2 below. An asterisk (*) represent companies traded out of the sample for various reasons; # 1 Aker Contracting was traded because the company is a subsidiary of #17 Ocean Yield. #5 Cellcura was recently acquired and the annual report for 2014 was not made available at the time of data collection. #26 Voss of Norway did not have a publically available annual report for 2014 at the time of data collection.

A double asterisk (**) represent companies replacing the companies marked with a single asterisk (*). The companies removed from the sample were replaced by companies beneath them in the population list when sorted by company revenue.

Table 3 presents an overview of the industries represented in the sample, as well as the number of companies drawn from each industry. Since the intention of the sample drawing method was to get a fairly representative sample, a successful sample would represent as
many industries as possible, and each industry would be represented by few companies (low clustering).

**Table 2 Sample with identifier and name of companies.**

<table>
<thead>
<tr>
<th>#</th>
<th>Identifier</th>
<th>Name</th>
<th>Operating Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>*</td>
<td>1</td>
<td>989061879</td>
<td>AKER CONTRACTING FP ASA</td>
</tr>
<tr>
<td>2</td>
<td>886582412</td>
<td>AQUA BIO TECHNOLOGY ASA</td>
<td>22 461</td>
</tr>
<tr>
<td>3</td>
<td>914864445</td>
<td>BN BANK ASA</td>
<td>647 000</td>
</tr>
<tr>
<td>4</td>
<td>974442167</td>
<td>BOUVET ASA</td>
<td>1 132 598</td>
</tr>
<tr>
<td>*</td>
<td>5</td>
<td>980040461</td>
<td>CELLCURA ASA</td>
</tr>
<tr>
<td>6</td>
<td>921526121</td>
<td>DNO ASA</td>
<td>3 916 218</td>
</tr>
<tr>
<td>7</td>
<td>997639588</td>
<td>EUROPRIS ASA</td>
<td>4 258 837</td>
</tr>
<tr>
<td>8</td>
<td>934382404</td>
<td>EVRY ASA</td>
<td>12 773 000</td>
</tr>
<tr>
<td>9</td>
<td>982985110</td>
<td>FISH POOL ASA</td>
<td>12 992</td>
</tr>
<tr>
<td>10</td>
<td>987974532</td>
<td>GC RIEBER SHIPPING ASA</td>
<td>881 568</td>
</tr>
<tr>
<td>11</td>
<td>995568217</td>
<td>GJENSIDIGE FORSIKRING ASA</td>
<td>23 098 700</td>
</tr>
<tr>
<td>12</td>
<td>988247006</td>
<td>INTEROIL EXPLORATION AND PRODUCTION ASA</td>
<td>358 213</td>
</tr>
<tr>
<td>13</td>
<td>976605713</td>
<td>KITRON ASA</td>
<td>1 751 300</td>
</tr>
<tr>
<td>14</td>
<td>966011726</td>
<td>NORDIC SEMICONDUCTOR ASA</td>
<td>1 447 173</td>
</tr>
<tr>
<td>**</td>
<td>15</td>
<td>891797702</td>
<td>NORTH ENERGY ASA</td>
</tr>
<tr>
<td>16</td>
<td>864234232</td>
<td>NORWAY ROYAL SALMON ASA</td>
<td>2 599 799</td>
</tr>
<tr>
<td>17</td>
<td>991844562</td>
<td>OCEAN YIELD ASA</td>
<td>249 300</td>
</tr>
<tr>
<td>18</td>
<td>994051067</td>
<td>PANORO ENERGY ASA</td>
<td>0</td>
</tr>
<tr>
<td>19</td>
<td>916235291</td>
<td>PETROLEUM GEO-SERVICES ASA</td>
<td>1 454 000</td>
</tr>
<tr>
<td>20</td>
<td>915929265</td>
<td>Skiens Aktiemølle ASA</td>
<td>1 164</td>
</tr>
<tr>
<td>**</td>
<td>21</td>
<td>981363876</td>
<td>STATOIL KAPITALFORVALTNING ASA</td>
</tr>
<tr>
<td>22</td>
<td>916300484</td>
<td>STOREBRAND ASA</td>
<td>63 669 000</td>
</tr>
<tr>
<td>23</td>
<td>996162095</td>
<td>TARGOVAX ASA</td>
<td>72</td>
</tr>
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<td>24</td>
<td>916819927</td>
<td>TORGHATTEN ASA</td>
<td>8 187 448</td>
</tr>
<tr>
<td>25</td>
<td>986144706</td>
<td>VERDIBANKEN ASA</td>
<td>34 718</td>
</tr>
<tr>
<td>*</td>
<td>26</td>
<td>980067645</td>
<td>VOSS OF NORWAY ASA</td>
</tr>
<tr>
<td>27</td>
<td>817244742</td>
<td>Voss Veksel- og Landmandsbank ASA</td>
<td>93 225</td>
</tr>
<tr>
<td>**</td>
<td>28</td>
<td>981953134</td>
<td>ZALARIS ASA</td>
</tr>
</tbody>
</table>

**Table 3 Distribution of companies in sample across industries**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Companies in Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office administrative, office support and other business support activities</td>
<td>1</td>
</tr>
<tr>
<td>Electricity, gas, steam and hot water supply.</td>
<td>1</td>
</tr>
<tr>
<td>Wholesale trade (not motor vehicles)</td>
<td>2</td>
</tr>
<tr>
<td>Financial Service Activities</td>
<td>4</td>
</tr>
<tr>
<td>Insurance</td>
<td>1</td>
</tr>
<tr>
<td>Research and Development</td>
<td>2</td>
</tr>
<tr>
<td>Activities of head office and management consultancy</td>
<td>1</td>
</tr>
<tr>
<td>Real Estate activities</td>
<td>1</td>
</tr>
<tr>
<td>Manufacture of computer, electronic and optical products</td>
<td>2</td>
</tr>
<tr>
<td>Manufacture of food products</td>
<td>2</td>
</tr>
<tr>
<td>Technical testing and analysis</td>
<td>1</td>
</tr>
<tr>
<td>Administration of financial markets</td>
<td>2</td>
</tr>
<tr>
<td>Computer programming, consultancy and related activities</td>
<td>2</td>
</tr>
<tr>
<td>Extraction of crude petroleum and natural gas</td>
<td>2</td>
</tr>
<tr>
<td>Transporting and storage</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25</td>
</tr>
</tbody>
</table>
5.3 Data Sources

According to the accounting law § 3-3 c section five, the report on ESG must be published as a part of the annual report or as a separate report publically available. According to the Accounting Act § 3-1 section one, the report must be approved within six months after the fiscal year ended, and according to § 8-2 section one, the report must be sent to The Accounting Registry no later than one month after approval.

5.3.1 Annual reports for the accounting year of 2014

The data sources consist of annual reports and related publications from the sampled companies for the accounting year of 2014 (latest available reports). This could be in the form of integrated or independent sustainability reports with or without reference to the GRI Guidelines or progress reports for members of the UN Global Compact. The reports were downloaded from the webpages of the sampled companies, organized in Evernote and reviewed in its original format. Notes were taken directly on the reports and the scores recorded in a score chart using Microsoft Excel.

5.3.2 Limited to public information

This study is limited to the use of annual reports and related non-financial reports publically available, in order to study the same information that is available to other company stakeholders. One of the purposes of the new regulations in Norway is that stakeholders could become better informed about ESG issues (Norwegian Ministry of Foreign Affairs, 2009). Even though it could be interesting to try to expose companies’ reporting errors or highlight unreported activities, it was not in the scope of this research to perform interviews or gather other forms data to confirm the accuracy of the information in the reports.

5.3.3 Challenges with secondary information

One of the advantages with using secondary information like public reports, is that it is much more easily available than primary data. This availability may make larger samples possible and therefore pave the way for better understanding of the subject (Grønhaug & Ghauri, 2010, s. 94).

One of the disadvantages with secondary information is that the information is gathered for another purpose than this research report. This means that the sources will contain much information that does not fit with the research purpose of this paper, and it therefore puts a
demand on the researcher to find out what information is necessary to answer the research problem. This also means that the sources may contain management’s wishful thinking and biased information meant to put the company in a better light (Gronhaug & Ghauri, 2010, pp. 96-97). This is an important issue, since the lack of mandatory non-financial standards in the Norwegian accounting law creates a hypothetical possibility for manipulation or distortion of information.

Because this study will not perform a subjective assessment of the quality of the information given in the reports, but will only focus on the presence of quantitative and comparable information, this study will be less affected by biased information. All indicators used in this study are based on the existing SDTI index, with most of the indicators found in the SDTI being quantitative counterparts to standard disclosures found in global recognized frameworks like the GRI (Rea, 2015). With the new requirements in Norway and the law’s reference to the GRI framework, it is reasonable to expect companies to publish information on most of the indicators in the study.

5.3.4 Is the information in the data sources valid?

The data sources are public reports published by companies required to do so by law, and are made with the purpose of giving stakeholders and shareholders decision critical information (Norwegian Ministry of Foreign Affairs, 2009). It would therefore be reasonable to expect companies to truthfully fulfill the requirements of the law and provide information asked for by the companies’ stockholders and other stakeholders.

On the other hand, some have criticized the law since it requires companies to report on issues that for now are mostly voluntary to the company (Norwegian Ministry of Finance, 2012). One can thus speculate whether or not this law will ensure that the reports’ content is factual and valid. Although history has shown us reporting scandals tied to obligatory financial reports (Agrawal & Chadha, 2005), it is not necessarily reasonable to therefore assume that most reports are false or distorted.

Will assurance be a remedy to this issue? Research has shown that assured sustainability reports may have a very varying degree of compliance to and correct use of the referenced framework (Rea, 2013, 2014), and others have found much use of standard phrases with little information value (Olsen & Orderdalen, 2014). One should therefore be cautious when interpreting and comparing the information given in companies’ non-financial reports. This issue highlights the importance of research that assesses transparency, information quality,
and information validity of such reports. While this study focuses on transparency and might be able to show what quantitative information is left out of the reports, it is not in the scope of this research to assess the validity of the claims in the reports.

5.4 Quantifying the data

After collecting all the annual reports and the related non-financial reports I was left with huge amounts of data to be analyzed. The purpose was to analyze how transparent each report was by assessing what aspects of the transparency framework was covered in the reports. To do this, a set of rules was developed on the basis of the earlier research done using the Sustainability Data Transparency Index framework (Rea, 2015). The set of rules can be found in Appendix I. Then these rules were used to evaluate each non-financial report or integrated annual report. The results from this review was recorded in a spreadsheet using Microsoft Excel, and is presented in full in Appendix III.

<table>
<thead>
<tr>
<th>ID</th>
<th>Standard Disclosures</th>
<th>Governance Indicators</th>
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<td>Gov2 Gov3 Gov4 Gov5 Gov6</td>
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<td></td>
</tr>
<tr>
<td>10</td>
<td>10 0 2 0 2 2 0 0 0 2</td>
<td></td>
</tr>
</tbody>
</table>

![Table showing scoring from the score chart. The full chart is presented in Appendix IV.](image)

5.4.1 Advantages of basing the study on an existing framework

By using an established and informally peer-reviewed (Rea, 2014, 2015) framework for scoring, this study can adopt verified conceptual definitions of what aspects of the reports to be measured and rules for how to give numbers to the properties of these aspects (Gronhaug & Ghauri, 2010). By following rules specifying how to apply numbers to the indicators in the framework, it is easy for other researchers to verify the reliability and results of this study.

By performing a study using a framework based on the existing SDTI framework, this study might provide the authors of the framework with knowledge on the framework’s usefulness in and transferability to another region. It will also be possible to benchmark the sample reports to reports from the same industry in another region, further increasing the usefulness of the framework itself.
5.4.2 Specifying rules

The set of rules was defined based on the previous research of Rea (2014, 2015), adapted to the Norwegian context. The rules define how to apply a score to a specific dimension in the framework, thus scoring if information on a specific subject is provided to the reader in a quantitative and comparable format. The categories of indicators used in this study consist of economic, governance, labor, health and safety, and environmental indicators in addition to standards (See Appendix I for overview of the indicators).

Within each category there are a number of indicators which measure different aspects of the categories mentioned above. Each indicator must be scores in a mutually exclusive way in order for the information to fit into a single category (Grønhaug & Ghauri, 2010, s. 151). To achieve this, each of these indicators are scored using a three-point scale to divide the information according to how well the indicators were quantitatively covered:

- 0 of 2 is given when no quantitative information could be found regarding the indicator. This means that sections with verbal descriptions of the aspect, but with no identifiable quantitative result to assess actual performance is given this score.
- 1 of 2 is given when the indicator is partly covered in the report. This includes incidents where information needs to be calculated, estimated or found outside the reports or attached documentation referenced in the reports, as well as incident where the information is clearly incorrect (obvious rounding errors or too many zeroes).
- 2 of 2 is given when the indicator is reasonably covered. This means that quantitative information is provided, it is easily located within the report or attached documentation, and it is not clearly incorrect.

See the Appendix I for the full list of indicators.

5.4.3 Analysis of the reports

After the rules was specified, a preliminary reading of the report was done to identify relevant sections of the reports, and to find external documentation if relevant. The rules were then used to analyze the non-financial reports and integrated reports, including attached documentation referenced to in some of the reports.

Each report and external documentation was organized in Evernote, where each company was given a unique ID number and filed in separate notes. All relevant information in the reports
was highlighted directly in each document and notes or comments stored in each company note. The scores were recorded in a spreadsheet developed in Microsoft Excel where each company’s report transferred to one row in the spreadsheet, and all properties of the company and the report as well as all scores to each indicator were transferred to separate columns. Some additional properties were also recorded: number of employees; operating revenue; where the information was found, whether in a separate non-financial report, integrated report, and/or in external documentation; and if the report was externally assured.
6 FINDINGS

This chapter is dedicated to give an account of the results from the empirical data collection in the study. First, I will give a brief overview of characteristics of the sample to give the empirical results some context. Consequently, results from each category of questions in the transparency index is presented.

6.1 About the sample

The sample represents a wide range of industries in Norway. The sample was drawn to represent a fairly representative cross section of the population of large companies registered in Norway, spanning 16 different industries and drawing between 1 and 4 companies in each industry (see Table 3 in Chapter 5.2). The companies in the sample reported employing between 1 and more than 10,000 people in Norway and abroad (see Figure 3), as well as having a reported revenue of between 0 and 63bn NOK in 2014 (see Figure 2). In total, the sample represented a diverse cross-section of the Norwegian market.

The reviewed reports ranged from 14 to 197 pages in length (see Figure 4), dedicating between 0-20% of the space to sustainability reporting. The average report was 84 pages long devoting 4% of the space to CSR disclosure – including figures and imagery. In many cases design elements or non-relevant illustrations or images occupied large portions of the allotted space (see example in Figure 2).

The majority of the reports in the sample had a primarily descriptive or qualitative approach to sustainability disclosure, emphasizing general policies and the companies’ values, or
referred to the companies’ Code of Conduct. See Figure 4 for an example of environmental disclosure from one of the reports. This was in contrast to the same companies’ clear focus on comparability and quantification on economic disclosure, which is exemplified in Figure 3.

There were, however, some notable exceptions. Two reports (8%) used the Global Reporting Initiative reporting framework, and a few other reports had a strong emphasis on comparable quantitative results. Three companies (12%) did not include any CSR related information in the annual report or related documentation, while 9 companies (36%) dedicated a half page or less to CSR disclosure (0.6% of the total report length). 6 companies (28%) dedicated more than the average of 4% of the pages to CSR, with a significant dedication gap between the top three reports and the rest (4th largest dedication to CSR disclosure at 4.57% and the 3rd largest at 11.57% of the report space – more than 2.5 times the share). See figure 4 for illustration of all these numbers.
Table 4 Overview of the sample, with number of employees at year’s end, and operating revenue in 1000 NOK.

<table>
<thead>
<tr>
<th>#</th>
<th>Identifier</th>
<th>Name</th>
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<td>ASA</td>
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<td>326 145</td>
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</table>

Figure 5 Overview of the sample by operating revenue

Operating Revenue (in 1000 NOK)
Figure 7 Overview of sample by employee count

Figure 6 Overview of annual report length and share of report devoted to CSR reporting. Companies are sorted by number of pages on CSR.
6.2 Standard Disclosures

The dimension called Standard Disclosures reflects the use of the GRI and UN Global Compact frameworks, assurance of the sustainability disclosures, and whether or not there were given information on what and how data points were tested by the auditor.

The distribution of the companies’ total scores in the Standard Disclosures category is shown in Figure 8. Of the reviewed companies, only Storebrand ASA were awarded a 100% score on this dimension. One company achieved a 75% score, 2 scored 50%, 11 scored 25%, and 10 companies scored 0%. Of the 10 companies with a 0% score, half were from the service or finance industry. These 10 companies dedicated on average 1.08% of their annual reports to CSR disclosure (see Figure 4).

The distribution of scores on the individual indicators in the Standard Disclosures category is shown in Figure 9. It shows that only 2 companies (8%) stated that they used the GRI reporting framework (question 1). 15 (60%) of the companies had their non-financial reports assured by an independent auditor (question 2), and of these only one company (appr. 6%) had the auditor provide specify the assurance procedure (question 3). 4 (16%) companies stated they were signatories to the UN Global Compact.
Figure 8 Overview of sample sorted by transparency score on the category Standard Disclosures.

Figure 9 Distribution of scores from the 25 companies on the Standards Indicators.
6.3 Governance

The dimension called Governance captured information on the board, management and auditors. More specifically, it looked for information on number of board members and managers, attendance at meetings, gender diversity, age spread, and length of service, as well as auditor’s length of service. Some of the elements in this dimension are covered through the disclosures prescribed in the Accounting Act §3-3b, such as the composition of the board and information regarding the instructions for the audit committee and auditor.

The distribution of companies’ total scores is shown in Figure 10. Of the reviewed companies, the highest total transparency score was 69% and was achieved by three companies (12%). The lowest total transparency score in this category was 25% and was achieved by two companies (8%). Both the average and median score was 50%, resulting from the fact that all companies achieving a full score on at least two indicators.

The distribution of scores on the individual Governance indicators is shown in Figure 11. It shows that all companies provided information on number of board members (one company revealed this through the board’s signature, achieving a 1-point score on this indicator). Two companies (8%) failed to provide information on gender balance in the board (this could be derived from the names of the board members stated on the signature page of the annual report, but because names cannot always provide 100% certainty on the gender, it was not used for scoring on this indicator). Only one report (4%) failed to disclose details on auditor remuneration. Disclosure on the above indicators are specifically required by the Accounting Act.

The distribution of scores on the indicators not specifically mentioned in the Accounting Act showed the following result. No company specifically disclosed average length of service or average age of board members, but in some cases this information was possible to derive from the presentation of the board members, gaining the companies a 1-point score. 3 reports disclosed information on board meeting attendance, and 3 reports disclosed information on the auditor’s length of service. It must be noted, though, that auditor’s length of service was only provided in cases were the auditor was replaced in the last year.
Figure 10 Distribution of companies' total scores on the Governance indicators

Figure 11 Distribution of scores on each of the Governance indicators

Governance

Number of board members
Gender balance in the board
Average length of service for board members
Average age of board members
Average attendance at board and committee meetings
Auditor remuneration: audit fees, non-audit fees, and other services
Auditor length of service
Number of members of management team

0 - No quantitative response found
1 - Partial response
2 - Adequate response
6.4 Labor

The dimension called Labor captured information on employees and employee rights. Specifically, it included indicators on gender balance, share of employees that are not permanent (contractors, seasonal or temporary), share that belong to a trade union, employees trained, employee turnover, sickness leave and strike action. Disclosure on gender balance and sickness leave is required by Accounting Act §3-3a, while disclosure on trade union membership, training, turnover, strike action is not. It was therefore expected that only the latter indicators would be lacking from some of the reports.

The distribution of companies’ total scores is shown in Figure 12. The results show a span in scores from the lowest – 9% transparency score – to the highest – 59% transparency score. The average transparency score was 35%, and the median score was 36%. By eliminating the two least and the two most transparent reports, we get an average score of 35%, with a span from 27% to 45%, indicating little variability between the reports.

The distribution of scores on the individual Labor indicators is shown in Figure 13. The indicators specifically mentioned in the Accounting Act saw the highest overall scores. All companies disclosed the total number of employees at year end (question 1), and many also disclosed total person hours worked (72% on question 7). 23 companies (92%) disclosed the employee gender balance (question 3), and 20 companies (80%) disclosed total sickness leave in either percent of full-time equivalents or in days (question 10).

Of the indicators not mentioned in the Accounting Act or not used in subsequent calculations (such as total person hours worked), few companies gained a full 2-point transparency score. The indicator with highest share of transparent disclosures in this category, was question 2 on the number of temporary employees, which was disclosed by 4 companies (16%). 3 (12%) or less companies disclosed information on the other indicators not mentioned in the Accounting Act.
Figure 12 Distribution of companies’ total scores in the Labor category indicators

Figure 13 Distribution of score on the individual Labor indicators
6.5 Health and Safety

This dimension captured information on the employees’ health and safety. It covers indicators on accidents leading to injuries and fatalities as well as injury frequency rate and the frequency rate goals of the company. The Accounting Act §3-3a requires all large companies to disclose information on accidents and injuries.

The distribution of companies’ total scores in the Health and Safety category is shown in Figure 14. The distribution shows that 7 companies (28%) failed to disclose any quantitative information on the indicators in this category. Two companies (8%) achieved a 100% transparency score. The average transparency score was 35% and the median was 33%. With a spread in scores from 0% to 100%, this category saw a significantly larger variability than in example the Labor category (see Figure 12).

The distribution of scores on the individual Health and Safety indicators is shown in Figure 15. Questions 1 through 5 are all partly covering the requirement in the Accounting Act §3-3a, meaning failure to disclose such information results in being incompliant with the law. The companies showed variance in how they reported accidents and injuries, resulting in variable scores on the 5 questions. 15 companies (60%) disclosed information on number of lost time injuries, which was the indicator with highest rate of disclosure. Between 4 and 7 companies (16-28%) disclosed information on injury frequency rates.
Figure 14 Distribution of companies’ total score on the Health and Safety indicators.

Figure 15 Distribution of scores on the individual indicators in the Health and Safety category.
6.6 Environment

The environmental dimension captured disclosures on energy usage, emissions of CO\textsubscript{2} equivalents, water usage, and disposal and recycling of waste. The Accounting Act §3-3a requires the disclosure of how the company’s input factors or products may negatively affect the environment and what measures are taken or planned to hinder this. Accounting Act §3-3c requires companies to give an account of their guidelines, actions and results for minimizing harm to the environment.

The distribution of companies’ total scores on the Environmental indicators is shown in Figure 16. 20 companies (80%) did not disclose any quantitative information on any indicators in the index, resulting in a 0% transparency score. 5 companies did disclose information on at least one of the indicators, achieving between 6% and 97% transparency score. Only two companies achieved a higher transparency score than 25%. The average transparency score was 9%, and the median score 0%.

The distribution of scores on the individual Environmental indicators is shown in Figure 17. The indicator with the highest disclosure rate was the indicator for total emissions of CO\textsubscript{2} equivalents, which 4 companies (16%) disclosed information on. The two most transparent reporters disclosed information on the majority of the indicators, resulting in all indicators receiving a disclosure rate of between 4% and 16%.
Figure 16 Distribution of companies’ total scores on the indicators in the Environment category.

- STOREBRAND ASA
- PETROLEUM GEO-SERVICES ASA
- NORDIC SEMICONDUCTOR ASA
- GIENSDIGE FORSIKRING ASA
- INTERIO EXPLORATION AND PRODUCTION ASA
- GC RIEBER SHIPPING ASA
- BN BANK ASA
- ZALARIS ASA
- VERDIBANKEN ASA
- NORTH ENERGY ASA
- TARGOVAX ASA
- TORGHATTEN ASA
- BOUVEF ASA
- OCEAN YIELD ASA
- KITRON ASA
- DNO ASA
- NORWAY ROYAL SALMON ASA
- PANORO ENERGY ASA
- EUROPRIS ASA
- EVRY ASA
- FISH POOL ASA
- Voss Veksel- og Landmandsbank ASA
- STATOIL KAPITALFORVALTNING ASA
- AQUA BIO TECHNOLOGY ASA
- Skiens Aktiebolag ASA

Figure 17 Distribution of scores on the individual indicators in the Environment category.

- Total direct energy consumption - Gigajoules (i.e. use of fuels)
- Total indirect energy consumption - Gigajoules (electricity...)
- Total electricity consumption (MWh)
- Target: Reduction in electricity intensity
- Target: Reduction in energy intensity
- Total carbon emissions (tons of carbon dioxide equivalents,...
- Total Scope 1 CO2e Emissions – Tons
- Total Scope 2 CO2e Emissions – Tons
- Total Scope 3 CO2e Emissions – Tons
- Target: Reduction in Carbon Emission intensity
- Total water consumption (kilolitres, or m3)
- Target: Reduction in water intensity
- Total volume of non-hazardous waste disposed (tons)
- Total volume of hazardous waste disposed (tons)
- Total volume of waste sent for recycling (tons)
- Percentage of waste disposed that is sent for recycling

0 - No quantitative response found
1 - Partial response
2 - Adequate response


7 DISCUSSION

This chapter is dedicated to the discussion of the findings and their importance, and will provide a nuanced answer to the research question. First I will analyze the findings and discuss potential reasons for the variance in the findings. Then, I discuss the possible relationship between how specific the law is and corporate disclosure. Subsequently, I will discuss the two most transparent reporters and contrast them to the two least transparent reporters. Next, I will discuss the limitations of this study and make suggestions for further research. Finally, I will summarize the findings and conclude.

7.1 Analysis of Findings

The average transparency score for all the reviewed companies was 28%, meaning that the companies only disclosed quantitative and comparable information on less than 1/3 of the indicators measured in this study. The category with the highest average transparency score was Governance, while Environment had the lowest average score. The indicators all captured quantitative information it is reasonable to expect large and well-governed companies to have and disclose, but not all this information is specifically required in the Accounting Act. Assuming that the transparency index used in this study is an adequate measure for transparency, the short answer to the research question is that Norwegian companies have significant room for improvement on transparency.

7.1.1 Transparency on Governance versus Environment Indicators

The amendment to the Accounting Act in 2013 requires more non-financial disclosure than before. Several aspects covered in this study was already present in the Accounting Act before the amendment from 2013, including disclosure on corporate governance and environmental issues. In example, elements of environmental disclosure was added to the Accounting Act as early as 1977, and regulation on environmental disclosure was further tightened in 1998 (Vormedal & Ruud, 2009). Therefore, disclosure on governance and environmental issues should not be considered new for most companies in Norway. Still, disclosure on environmental issues have been largely ignored by Norwegian companies, with only 10% of companies found to report “satisfactory” in accordance to the Accounting Act in 2009 (Vormedal & Ruud, 2009). Disclosure on Governance have also been found to be “unsatisfactory” compared to the guidelines from The Norwegian Corporate Governance Board (NUES) (EY, 2015).
Issues regarding corporate governance are mentioned in the Accounting Act § 3-3b, and specifically requires the disclosure on the composition of the board and information regarding the instructions for the audit committee and auditor. For the requirements on company impacts on the environment, this is mentioned both in § 3-3a and § 3-3c. The main difference in the requirements for the two issues, is that environmental disclosure requirements seem much more general than the specific requirements for some elements of corporate governance. With this background, I expected lower transparency scores on the Environment indicators than Governance indicators.

It was not surprising to find exceptionally low overall transparency rate on the Environment category compared to the Governance category. 80% of the sample failed to provide any quantitative results or performance measures on environmental indicators in their annual report. On the Governance indicators, the lowest overall transparency score was 25%. My findings largely indicate a low overall transparency, especially on environmental disclosure. This supports the earlier research by Vormedal and Ruud (2009) and Olsen and Orderdalen (2014). The variability of transparency scores on Governance indicators seem to be in line with the general conclusions by EY (2015). Despite this result being expected, it is still signifying an alarming low compliance rate on environmental issues.

7.1.2 Further Analysis of Disclosure of Environmental Information

What did the 20 companies with a 0% transparency score say about their environmental impact in their annual reports?

Even though few companies included quantitative data on environmental performance, virtually all included statements or claims regarding their environmental footprints. The annual reports of the firms with lowest transparent on environmental issues only included information on their environmental policies and internal reporting standards, while excluded performance measures and results (see examples in Box 1 below). In addition, some reports simply stated that the company do not materially affect the environment (see examples in Box 2 below).

The general lack of quantitative performance data in most reports is in stark contrast to the most transparent reporter’s detailed energy and climate report (see Figure 18). This energy and climate report includes breakdown on energy sources and scope 1-3 emissions for its total operations.
Box 1: Examples of internal environmental policies mentioned in the annual reports.

“In 2012 the group was certified according to the ISO-14001 standard and is audited annually by classification companies. Specific plans to minimise emissions are in place and the group follows up on adverse impacts on the environment through defined KPIs. Furthermore, a new environmental programme has been developed to monitor emission into the air.” (GC Rieber Shipping ASA, 2015, page 21)

“Several of the group’s manufacturing units are certified in accordance with the NS ISO 14000 series of environmental management standards.” (Kitron ASA, 2015, page 83)

Box 2: Examples of statements of not materially affecting the environment found in the annual reports.

“"The Board is of the opinion that the bank’s operations are not affecting the natural environment in excess of what is normal for office operations.” (Verdi banken ASA, 2015, page 3, author’s translation)

“Kitron does not pollute the external environment to any material extent. (Kitron ASA, 2015, page 7)

“GC Rieber Shipping operates in compliance with international shipping standards for emission into the sea and air and works proactively to comply with existing and new environmental regulations.” (GC Rieber Shipping, 2015, page 37)

“We aim to be as environment-friendly as possible. Our core business and production does not affect the natural environment. Nevertheless, we have put a number of measures in place to prevent our activities having unfortunate environmental side-effects.” (Bouvet ASA, 2015)

Figure 18 Energy and Climate Account from Storebrand ASA’s annual report for 2014
Many companies in the sample were given a 0% transparency score on the Standard Disclosures category. First of all, it means that the report does not use the most common international non-financial reporting framework (question 1), which is the Global Reporting Initiative’s Reporting Guidelines. Secondly, it means that the report is not assured (question 2) and that the information that is disclosed is not verified to be measured and presented correctly. Thirdly, it means that the auditor (assuming now that the report was assured) did not provide information on what measurement processes or results were verified (question 3). Finally, it means that the company was not a signatory to the United Nations Global Compact. In sum, a 0% score on the Standard Disclosures category means that the non-financial/sustainability report is not granted the same level of quality, assurance and comparability that the stakeholders have become to expect from financial disclosure.

The findings showed that 15 of the 25 companies had their auditor assure their non-financial reports. This means that many companies make efforts to verify its claims on non-financial reporting, thus potentially increasing the face value of the information in the reports to the companies’ stakeholders. Still, very few companies used the international reporting standard GRI, even though this standard is both mentioned in the Accounting Act §3-3c section three and recommended by the UN Global Compact (United Nations Global Compact, 2014). The consequence of not using a common reporting standard is that the companies’ performance might not be comparable for the readers of the annual reports.

Disclosure on gender balance and sickness leave is required by Accounting Act §3-3a, while disclosure on trade union membership, training, turnover, strike action is not. It was therefore expected that only the latter indicators would be lacking from some of the reports. The findings showed this expectation to generally hold, but some companies failed to disclose information on these indicators. This meant that at least 20% of the reviewed companies were incompliant with the labor disclosure requirements in the Accounting Act.

The Accounting Act §3-3a also requires large companies to disclose information on accidents and injuries, but does not specify the level of detail. It was therefore expected that companies showed lower transparency on the indicators specifying whether the injury led to lost time or not, specifying injury frequency rate and rate target. The findings showed that companies varied in how detailed they reported on accidents, and several firms reported with a single sentence declaring that they did not have any injuries in the accounting year.
7.2 What is the Relationship Between Regulation Specificity and Transparency?

The difference in transparency between governance and environmental indicators is striking. It is worth noting however that several of the governance indicators used in this study are specifically required by the Accounting Act, such as the composition of the board and information about the auditor (See Accounting Act § 3-3 b). This naturally resulted in a high transparency score on the indicators asking for number of members and gender balance of the board, as well as details on payments to the auditor. Other governance indicators, such as attendance at board meetings and length of service for board members and auditor, saw very low rate of disclosure.

When comparing governance indicators to the environmental indicators, and knowing that there are no corresponding requirements for specific environmental information in the Accounting Act (see discussion in chapter 7.1.1), it was no surprise that most companies (4/5) had a 0% environmental transparency rate. On the other hand, 1/5 of the companies did disclose information on some or all of the environmental indicators. These companies averaged a 43% environmental transparency score.

Disclosure on labor indicators were also relatively high, and mediocre on health and safety indicators. Both saw higher transparency rate on the indicators specifically mentioned in the Accounting Act. Disclosure on gender balance, sickness leave, accidents and injuries are all specifically required by Accounting Act §3-3a, while disclosure on trade union membership, training, turnover, strike action, accident frequency rate is not.

These findings may suggest that the specificity of the law plays an important role in transparent reporting, and may also suggest that companies tend to minimize information disclosure. There is still need for knowledge on the drivers for corporate disclosure. This could bring insights into the effectiveness of regulatory tools, understanding if companies try to minimize information disclosure, and discerning potential reasons for this.

7.3 The Most/Least Transparent Companies

The most transparent reporter in this study was Storebrand with an overall score of 60%. Despite achieving the highest overall score, Storebrand got a 0% transparency score on Health and Safety indicators. This may be related to their line of business – finance/insurance. Another firm in the same industry – Gjensidige Forsikring – had a very similar approach to health and safety disclosure as Storebrand. Gjensidige Forsikring achieved a 61% transparency score on health and safety simply by stating that they did not have any injuries at
all in the reporting period. It could be argued that the scoring rules for health and safety could be changed to reflect this issue. Gjensidige Forsikring was awarded full score on the related indicators for disclosing all accidents for the year (0), but they did not specify that this meant 0 fatalities, first-aid, medical, and lost-time cases. They scored less than 100% for not including information on accident frequency rates and rate targets. Using the current scoring rules, and on the assumption that Storebrand did not have any injuries, they could have achieved a similar 61% transparency score on health and safety by stating that there were no accidents or injuries. This illustrates some of the limitations of employing a quantitative measure of transparency.

*Figure 19 Comparison of overall transparency scores for the two most/least transparent firms in the sample*

Storebrand was also the only firm to perform detailed energy and climate accounting (see Figure 18 above), with energy use, Scope 1-3 emissions assessment, water usage, and waste produced (see figure below). Other firms like the second most transparent reporter Petroleum Geo-Services also included much of this information (59% environmental transparency score), but Storebrand was alone in providing transparent information on almost all the environmental indicators in this study.

Petroleum Geo-Services (PGS) was the second most transparent reporter achieving an overall transparency score of 56%. PGS scored lower on indicators on standards and environment than Storebrand. The score on standards was lower for PGS than Storebrand due to PGS not...
being GRI-compliant, not stating being a signatory to the UN Global Compact (UNGC) principles, and that their assurance report did not include information on what factors were checked by the auditor. The lower score on environmental indicators were due to not stating any reduction targets (energy, emissions, water), and by not disclosing water usage and amount of hazardous waste created and disposed in the reporting year.

The two least transparent reporters Europris and Statoil Kapitalforvaltning, dueling for the last position with both achieving an overall score of 13%. Neither company disclosed information on the environmental indicators. They also scored 0% on standards, meaning that they are not signatories to the UNGC or GRI-compliant, which would require more disclosure on environmental issues. Statoil Kapitalforvaltning scored 0% on the health and safety indicators, and Europris only achieved full score on one of these indicators (for a full score chart for all companies in the sample, see Appendix III).

It would not be very surprising to find few injuries in the finance and wholesale industries, given the low use of manual labor and low risk of serious accidents in these industries. Given that the Accounting Act § 3-3a specifically requires companies to disclose information on injuries, it is surprising that many firms chose to not even mention this. The two least transparent firms scored highest on governance and labor indicators. As discussed above, relatively high scores on these two categories were expected due to the specific requirements in the Accounting Act.

### 7.4 Limitations and Suggestions for Further Research

Because the aim of this study was to reveal the status quo on transparency in corporate non-financial disclosure, a quantitative measure was chosen. This approach is practical in the sense that it gives a good overview of what issues corporations disclose actual performance. On the other hand, limiting the study only to a quantitative one-dimensional measure will eventually lead to overlooking useful qualitative non-financial information. One can argue that performance can not always be measured quantitatively, and certain researchers find it difficult to find valid performance measures for sustainability issues (Margolis & Walsh, 2001). Further research could therefore be done using multi-dimensional measures for transparency. One example could be to use the rate of disclosure of negative performance information (compared to the rate of disclosing positive information) as another dimension in measuring transparency. Another possibility is to use other assessment frameworks and datasets such as the GRI Sustainability Reporting Guidelines, Bloomberg ESG database, or UN Global Compact Progress Reports.
Another limitation of only capturing quantitative data was highlighted in the discussion in chapter 7.3. Some companies scored higher on certain transparency indicators simply by including a simple statement of no accidents (for health and safety indicators). The two companies mentioned above both likely had 0 accidents and injuries, but one of them failed to mention this. On the other hand, as a measure for transparency, this scoring was correct. Most importantly, what this limitation underlines, is that there might be a performance-disclosure gap. This gap is not captured by this study’s approach, as this study only uses self-reported data. More knowledge is needed on the relation between corporate transparency and actual performance in Norway.

A third limitation is in the possibility to generalize the findings to other regions, industries or company types. This study analyses a sample of a wide range of companies in a Norwegian context. This means that the companies are affected by the legal and social context in Norway, making new research in other countries necessary in order to compare the results across regions. Not being able to distinguish trends in specific industries is a factor of the choice of sample. The sample was chosen to represent the Norwegian market, and not to differentiate between industries. There is still need for knowledge on transparency in different industries, and the drivers for corporate disclosure in these industries.

7.5 Conclusions

The research question for this master thesis was “How transparent are Norwegian companies about their CSR performance in the annual reports for the accounting year 2014”. This research question was further operationalized into: “How much quantitative and easily comparable information is publically disclosed by Norwegian companies about their corporate governance, labor conditions, health and safety, and environmental impact?”

As the operationalized research question reveals, this study was limited to analyzing quantitative performance data found in public annual reports. The study found that Norwegian corporate non-financial disclosure is generally low in transparency. The reporters achieved the highest transparency score on governance indicators and the lowest transparency score on environmental indicators. The analysis of the findings suggests that the specificity of the requirements in the Accounting Act may be related to the variance in transparency on the different issues measured. The study also suggests that more knowledge is needed on the drivers for corporate disclosure and the effect of regulators’ tools on corporate performance.
8 SUMMARY

The world’s climate is changing, and companies around the world are irreversibly impacting societies and the environment. Regulators are increasingly turning to non-financial disclosure regulations as a tool to increase corporate transparency about social and environmental issues. The goal is to make companies accountable for their impact on their environment and to incentivize better corporate social and environmental performance. To achieve this, stakeholders need information on how well corporations perform on these issues. This study is aimed at finding out how transparent corporations are in disclosing quantitative performance measures. This is done in a Norwegian context, drawing a sample of companies affected by the 2013 amendment to the Norwegian Accounting Act. The amendment added requirements for non-financial disclosure for large companies in Norway. This study used a transparency framework to assess the transparency of annual reports from 2014. This revealed a varying degree of transparency on the different categories in the framework. Most importantly, this study found that transparency on environmental issues is alarmingly low. Secondly, it found that the specificity of the Accounting Act may play a role in the variability of transparency across different issues. Therefore, there is a need for more knowledge on how the regulators’ tools are affecting performance.


9 References


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Appendix I: Transparency Indicators Used in the Study

Standards and Assurance Indicators

1. Do the report claim GRI-compliance?
2. Has the sustainability report been assured by a third-party?
3. Has the assurance provider given information on tests on specific data points and provided insightful findings in the assurance report?
4. Is the company a signatory of the United Nations Global Compact?

Corporate Governance Indicators

1. Number of board members
2. Gender balance in the board
3. Average length of service for board members
4. Average age of board members
5. Average attendance at board and committee meetings
6. Auditor remuneration: audit fees, non-audit fees, and other services
7. Auditor length of service
8. Number of members of management team

Labor indicators

1. Total number of employees (average or year-end)
2. Number of temporary employees (contractors or seasonal)
3. Gender balance of employees
4. Share of employees who are permanent
5. Share of employees who belong to a Trade Union
6. Employee Turnover
7. Total person hours worked, or average full-time equivalents during the year.
8. Total number of employees trained
9. Cost of training
10. Person days lost due to sickness leave - in percent or days
11. Person days lost due to strike or other industrial action.

Health and safety indicators

1. Number of fatalities (i.e. injuries on duty leading to death)
2. Number of first aid cases (i.e. injuries on duty leading to minor treatments, such as plaster or pain tablet)
3. Number of medical treatment cases (i.e. injuries on duty leading to medical treatment but no lost days)
4. Number of lost time injuries (i.e. injuries on duty leading to at least one lost day)
5. Total number of recordable injuries
6. Fatal injury frequency rate (i.e. per 200k, 1000k hours or per full-time equivalents)
7. Lost time injury frequency rate (i.e. per 200k, 1000k hours or per full-time equivalents)
8. Total recordable injury frequency rate (i.e. per 200k, 1000k hours or per full-time equivalents)
9. Does the company report injury rate targets?

Environmental indicators
1. Total direct energy consumption - Gigajoules (i.e. use of fuels)
2. Total indirect energy consumption - Gigajoules (electricity purchased)
3. Total electricity consumption (MWh)
4. Target: Reduction in electricity intensity
5. Target: Reduction in energy intensity
6. Total carbon emissions (tons of carbon dioxide equivalents, CO₂e)
7. Total Scope 1 CO₂e Emissions – Tons
8. Total Scope 2 CO₂e Emissions – Tons
9. Total Scope 3 CO₂e Emissions – Tons
10. Target: Reduction in Carbon Emission intensity
11. Total water consumption (kilolitres, or m³)
12. Target: Reduction in water intensity
13. Total volume of non-hazardous waste disposed (tons)
14. Total volume of hazardous waste disposed (tons)
15. Total volume of waste sent for recycling (tons)
16. Percentage of waste disposed that is sent for recycling
Appendix II:

Summary of the Sustainability Data Transparency Index


- 7 Standard Disclosures
  - SD1 Is the report GRI-compliant?
  - SD2 Has the report been assured?
  - SD3 Did the assurance provider test specific data points and provide insightful findings?
  - SD4 Has the company made a CDP Submission?
  - SD5 Does the report contain a King III compliance checklist?
  - SD6 Is the company a signatory of the United Nations Global Compact (UNGC)?
  - SD7 Is the company a signatory of any Industry-specific regulatory body (e.g. ICMM) or the Equator Principles?

- 12 Labor indicators
  - La1: Total number of employees
  - La2: Total number of temporary employees (contractors, seasonal, casual, temporary)
  - La3: Percentage of employees who are deemed “HDSA”
  - La4: Percentage of employees who are women
  - La5: Percentage of employees who are “permanent”
  - La6: Percentage of employees who belong to a Trade Union
- La7: Employee Turnover (i.e. number of persons who departed relative to the total number of employees at year-end)
- La8: Total number of Person Hours Worked (PHW) – Reported
- La9: Total number of employees trained, including internal and external training interventions
- La10: Monetary value of Employee training spend
- La11: Total number of Person Days lost due to absenteeism
- La12: Total number of Person Days lost due to industrial action (i.e. strike action)

- 12 economic indicators
  - Ec1: Monetary value of Total Revenue Generated
  - Ec2: Monetary value of Net Profit Generated
  - Ec3: Monetary value of Total Compensation Paid to Employees, including wages and benefits
  - Ec4: Total Monetary value of Compensation Paid to Executive directors – excluding LTIP gains
  - Ec5: Total monetary value of long-term incentive plan (LTIP) gains – executive directors
  - Ec6: Total monetary value of compensation paid to prescribed officers – excluding LTIP gains
  - Ec7: total monetary value of LTIP gains – prescribed officers
  - Ec8: monetary value of historically disadvantaged South African Procurement spend (HDSA)
  - Ec9: monetary value of total taxes borne and collected on behalf of government(s), inclusive of VAT, income tax, royalties, rates & taxes, etc.
  - Ec10: monetary value of funds invested in research and development
  - Ec11: monetary value of dividends paid to shareholders
  - Ec12: monetary value of earnings retained
- 10 CSI/SED spend indicators
  - CS1: monetary value of total corporate social investment (CSI)/socioeconomic development (SED) expenditures – reported
  - CS2: monetary value of CSI/SED spend on education
  - CS3: monetary value of CSI/SED spend on skills development
  - CS4: monetary value of CSI/SED spend on health
  - CS5: monetary value of CSI/SED spend on basic needs and social development, including nutrition and/or feeding programmes
  - CS6: monetary value of CSI/SED spend on infrastructure development
  - CS7: monetary value of CSI/SED spend on arts and culture
  - CS8: monetary value of CSI/SED spend on other
  - CS9: comprehensive discussion of returns on CSI/SED expenditures
  - CS10: monetary value of enterprise development spend

- 10 environmental indicators
  - En1: total direct energy consumption (Gigajoules) – i.e. from fuels burned
  - En2: total indirect energy consumption (Gigajoules) – i.e. from electricity purchased
  - En3: total electricity consumption (MWh)
  - En4: total carbon emissions (tons of carbon dioxide equivalents, CO2e)
  - En5: total carbon emissions include the following mix (scopes 1 to 3)
  - En6: total water consumption (kilolitres, or m3)
  - En7: total volume of non-hazardous waste disposed (tons)
  - En8: total volume of hazardous waste disposed (tons)
- **En9:** total volume of waste sent for recycling (tons)
- **En10:** percentage of waste disposed that is sent for recycling - reported

**11 health and safety indicators**

- **HS1:** number of fatalities (i.e. injuries on duty leading to death)
- **HS2:** number of first aid cases (FACs i.e. injuries on duty leading to minor treatments, such as plaster or pain tablet)
- **HS3:** number of medical treatment cases (MTCs i.e. injuries on duty leading to medical treatment but no lost days)
- **HS4:** number of lost time injuries (LTIs, i.e. injuries on duty leading to at least one lost day)
- **HS5:** total number of recordable injuries, including MTCs, LTIs and fatalities
- **HS6:** fatal injury frequency rate (i.e. number of fatalities per 200,000 hours worked)
- **HS7:** lost time injury frequency rate (number of LTIs per 200,000 hours worked)
- **HS8:** total recordable injury frequency rate (i.e. number of LTIs, MTCs and fatalities per 200,000 hours worked)
- **HS9:** total number of employees and contractor receiving voluntary counselling and testing (VCT) for HIV/AIDS
- **HS10:** total number of employees and contractors tested for HIV/AIDS
- **HS11:** HIV/AIDS prevalence rate amongst employees

**12 Governance indicators**

- **Gov1:** number of board members
- **Gov2:** number of board members who are non-executive
- **Gov3:** number of board members who are deemed “independent”
- **Gov4:** number of board members who are deemed HDSA
- **Gov5:** number of board members who are women
- Gov6: average length of service – executive directors
- Gov7: average length of service – non-executive directors
- Gov8: average length of service - overall
- Gov9: average age of directors
- Gov10: average attendance at board and committee meetings
- Gov 11: auditor remuneration: percentage of non-audit fees/fees for other services
- Gov12: number of prescribed officers
Appendix III: Data Sheet
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