CSR disclosure and decision usefulness - are firms aware of what information users find as useful?

A study investigating the dichotomy in perceptions between reporters and users

Naosil Hanna
22747

Oscar Bjurviken
23082

Abstract

This thesis investigates the identified research gap concerning the area of sell-side equity analysts' informational needs and preferences, relating to the relevance and usefulness of the informational value in CSR disclosure. An exploratory, qualitative study has been made to investigate the dichotomy in perceptions between reporters and users. The analysis is made by using interview data that has been gathered from 15 sell-side equity analysts. Based on our empirics, we identified possibilities of increasing the usefulness of CSR disclosure by finding what information equity analysts consider as important and necessary. Our empirical findings suggest that CSR-disclosures considered material and useful were primarily related to governance, emissions, reputational, and social risks. All of which were emphasized considering economic priorities and in most of the cases, from a risk-management point of view. Moreover, we observed that less experienced analysts are less likely to incorporate CSR related information due to the lack of knowledge and associated difficulties for how to incorporate it, in comparison to more senior analysts who expressed a more positive view towards incorporating of information.

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1. Introduction

"It's all about the bucks kid. The rest is conversation"

- (Gordon Gekko, Wall Street, 1987)

Participants in the financial community prefer to consider themselves as rational individuals primarily driven by quantitative information as being evidenced by their assessment of a firm's economic condition, which continues to primarily rely on financial information presented in the financial statements (Hoffmann & Fieseler, 2011; Krasodomska & Cho, 2017). Surprisingly, several studies highlight the significant influence of non-financial information on a firm's market performance (Hoffmann & Fieseler, 2011). An interesting question to be asked may therefore be whether quantitative analysis is adequate when considering issues related to the consequential impact arising from activities normally attributable to non-financial information - are these irrelevant? Eccles et al., (2011), one of the proponents for incorporating non-financial information, argue that a broader set of non-financial measures should be incorporated by sell-side analysts to get a more holistic view of a business. This line of argument gains additional weight when considering the magnitude of consequences arising from catastrophic events such as the one involving BP in 2010 and for which the company until May 2015, had paid USD 53,8bn in litigation fees.

Having the consequences of such scenarios in consideration makes it evident that financial information, although significantly important, remains inadequate and insufficient to present a holistic view of a firm's performance (Eccles et al., 2011; Federation of European Accountants, 2016, p. 21). For reasons as such, it is deemed necessary that annual reports contain non-financial information since it not only increases their informational value from a stakeholder perspective, but also contributes to the accountability of firms' social and environmental impacts (Bebbington et al., 2014; Krasodomska & Cho, 2017).

Corporate Social Responsibility (CSR) has despite its emerging recognition always been characterized as a somewhat ambiguous concept, viewed in several different ways. While some argue that CSR is a waste of money, a *"...fundamental misunderstanding of a company's role in the market economy"* (Friedman, 1962), or a way for managers to enjoy benefits and appraisal at the expense of shareholders (Barnea and Rubin, 2010). Others argue that CSR is a risk-mitigating strategy towards litigation fees, a tool for increased transparency and reduced information asymmetry, as well as a valuable source of information for companies' expected future performance (Renneboog et al., 2008; Clarkson et al., 2013). Placed in the centre of this equivocality are firms who frequently need to justify the emphasis placed on CSR to their stakeholders, because securing the approval of the financial community is essential for a firm's ability to successfully change its CSR practices (Fieseler, 2011).

However, managing a balanced communication of CSR activities to the capital markets becomes an even more challenging task when considering corporate communication in a larger context. This derives from the fact that different stakeholders approaches firms with different expectations and perspectives, each, in many cases, unique for their own agenda (Ibid), implying that views on the matter between professional participants and those of the broader public might differ from each other or be in conflict. This in turn, poses a challenging task for companies to fulfil the information need for all stakeholder groups (Ibid).

Along with increasing stakeholder expectations, changing conditions for firms to operate in, as well as the increasing importance of non-financial information in present value calculations and forecasts of firm's future growth (GRI, 2012), follows an implicit requirement that corporate reporting evolves to meet current and upcoming challenges. Evidence reflecting the ongoing development is the implementation of the first disclosure regulation of non-financial reporting in the European union (Directive 2014/95/EU), which addresses issues related to social, environmental and employee aspects and requires companies to report non-financial information starting from 2018.

However, the issue is that existing practices in corporate reporting consists of weaknesses and limitations due to the lack of transparency and substantial amount of information being disclosed. Evidence suggests that companies, rather than focusing on the relevance and usefulness of the reported information seem to focus on an increase in the volume and scope instead, which gives nurture to the arising irritation among users of the information (Krasodomska & Cho, 2017). Whether the inability of fulfilling the informational needs derives from a lack of knowledge regarding which information users find as useful remains to be answered.

Elaborating on Fieseler (2011) provides a first indication, the author found a common objection to philanthropy among analysts which suggests a dichotomy in perceptions between reporters and users with regards to the usefulness of CSR disclosure while also highlighting an important gap: *"In the literature, it is often assumed that charitable contributions foster good relationships with the community, ensuring their continued support and consequently enhancing the sustainability of the firm (Campbell et al. 2002). Analysts did not perceive it this way, and the question remains as to whether and how institutions can make this connection more salient to the financial community"* - Fieseler (2011, p. 142)

Moreover, following Krasodomska & Cho's (2017) reference to (Bradshaw, 2011) regarding previous research conducted by Schipper (1991) and Fogarty and Rogers (2005), where focus was on the important role of analysts as an information intermediary in the capital markets, it is highlighted that further research on the preferences and informational needs of analysts is merited. Furthermore, Krasodomska & Cho (2017) proposes future research to focus on: 1) attempting to increase the usefulness of CSR disclosures by identifying the reasons behind its limited use by analysts, and 2) investigating which CSR information analysts find necessary and important.

Following the introduction above, we identify what appears to be a research gap in the area of analysts' informational needs and preferences with respect to the *relevance* and *usefulness* of CSR disclosure for equity analysts.

Drawing on the suggestion of Krasodomska & Cho (2017) regarding areas in the field worth examining further, the aim of this paper is to explore the next dimension in this research field, namely, the usefulness of CSR information for sell-side equity analysts. This will be done by identifying possibilities of increasing the usefulness of CSR disclosure by finding out which information equity analysts consider as important and necessary. The objective with doing this in turn is to contribute to the understanding of how investor relations (IR) professionals could tailor the information geared towards the needs of this user group. Consequently, this paper seeks to answer the following two-folded research question:

"Is CSR information useful for analysts in their assessment of companies? If so, what kind of information in particular?"

2. Literature review

This section reviews previous literature in the field. More specifically, section 2.1 provides an overview of what equity analyst do, their role, characteristics and their interaction with the capital markets, while section 2.2 addresses the usefulness of CSR information for equity analysts.

2.1 Equity Analysts - their role, characteristics and interaction with the capital markets

"...financial analysts employed by securities firms play an important role in the capital markets. Most importantly, the reports that they produce are given great consequence by many market participants" - Fogarty and Rogers (2005, p. 331)

2.1.1 Equity analysts - what they do and their roles

The most vital tasks of analysts are to provide reliable information to investors and to monitor firms' management (Cheng et al., 2006). Providing reliable information to investors is accomplished by generating two main products, 1) forecasts of firms' future earnings, and 2) issuing investment recommendations to sell, buy or hold shares (Barker, 1999; Cheng et al., 2006; Ioannou & Serafeim, 2015). In providing reliable information, analysts gather public information from various sources for the companies they cover and supplement it with private conversations with management to improve their understanding of a company's activities, and to gain additional context for how to interpret firm news (Brown et al., 2015; Bradshaw, 2011; Soltes, 2014). In other words, analysts serve as an information intermediary and add value to investors by transforming a substantial amount of public information into a decision-useful format for investment decisions (Elgers et al., 2001; Orens & Lybaert, 2010).

The second function of analysts, firm monitoring, contributes to reducing agency problems between management and shareholders (Jensen and Meckling, 1976; Doukas et al., 2005). Issues related to agency problems are an increasing risk for firms with less informative earnings (Chung et al., 2005; LaFond & Watts, 2008), which leads to the increased necessity for analysts to rely on more non-financial information (Orens & Lybaert, 2010). Factors analysts consider as indicators for high-quality earnings include that they are recurring and sustainable, supported by operating cash flows, and subject to consistent reporting choices while also mirroring economic reality (Brown et al., 2015).

2.1.2 Equity Analysts - their assessment of companies and forecast accuracy

Continuing further on the most vital tasks of analysts, previous research highlights the significant influence the perceptions, analyses, forecasts and recommendations that sell-side analysts have on the capital markets (Barker, 1998). While it is suggested that the main aim of analysts is to assess whether a firm's share is under- or overvalued by making use of valuation models and conducting analysis (Barker, 1999), seldom is the extent to which their usage of voluntarily disclosed information being judged (Orens & Lybaert, 2007). Analysts need information to estimate cash flows, earnings and valuation multiples which can be collected from various sources, with annual and quarterly reports serving as the foundation for the information gathering. In line with Bradshaw (2004), Brown et al. (2015) found that the ratios most commonly used are the Price/Earnings (PE) or Price-earnings-growth (PEG) ratios, as well as the Discounted Cash Flow Model (DCF), all of which, are heavily dependent on accounting information.

However, solely relying on financial information is insufficient to provide the whole picture. As evidenced by Vanstraelen et al. (2003), using forward looking non-financial information has a positive impact on analysts forecast accuracy of earnings. This was further supported in a later study by Orens & Lybaert (2007) who arrived at the same conclusion stating that: "*...financial analysts who use more forward-looking information and more internal-structure information offer more accurate forecasts*".

Concluding the review above we learn the following:

1. The most vital tasks of analysts are to *i)* provide reliable information to investors, and *ii)* monitor firms' management. The former is accomplished by generating two main products: forecasts of firms' future earnings and issuing investment recommendations, whereas the latter contributes to reduce agency problems between management and shareholders.
2. Non-financial information increases analysts forecast accuracy of future earnings.

Consequently, a natural question to be asked is what and which kind of non-financial information previous research refers to? The next section discusses this in further detail.

2.1.3 Equity Analysts - sources of information and the potential conflict

Barker (1998) found that in addition to the accounting information disclosed in annual and quarterly reports, analysts consider interactions with management to be such a powerful tool that it in in some cases is regarded as more important than the accounting figures presented in the reports. However, the information given from the meetings is not enough in isolation. Rather, the meetings and dialogues are used to add meaning to other quantitative accounting information (Barker & Imam, 2008), which is a line of reasoning further supported by Gassen & Schwedler (2010) who claimed that: *"The income statement is perceived as most useful, while management contact is most important overall"*.

In other words, interactions provide analysts with valuable insights into companies' operations, while at the same time, serving as a tool to foster relationships with management (Brown et al. 2015; Soltes, 2014). In addition to the important improvements that valuable insights contributes with in the accuracy of firm specific forecasts, evidence suggests that private interaction with management serve as an important communication channel for another function as well, namely, *corporate access* (Soltes, 2014). Corporate access is highly regarded by investors as it allows them to take part of valuable information about the firm, sector and outlook directly from top management, and it is facilitated by strengthened relationships from private interactions (Ibid). Following Soltes (2014), Brown et al. (2015) extended further on the topic and found that *"...private communication with management is a more useful input to analysts' earnings forecasts and stock recommendations than their own primary research, recent earnings performance, and recent 10-K and 10-Q reports"*.

At a first glance, this line of setup might seem perfectly clear and to make sense. However, this is not the case when reviewed more closely. Accompanied in this set-up follows an inherent risk related to objectivity where, 1) the benefits accompanied with private interaction including corporate access, private conversations with top management and regional managers, indeed, serve as the basis for gaining insights contributing to better research reports, while simultaneously, 2) the negative ramifications from the company following an unfavourable recommendation exposes analysts to the risk of losing their corporate access. Consequently, there seems to be an inherent conflict for analysts where on the one hand, issuing forecasts and recommendations below consensus increases their credibility, while on the other hand, exposing them to damaged relationships with the firms they cover (Brown et al., 2015). Therefore, it is far from an impossibility that analyst recommendations are biased upwards, especially when considering the fact that private interaction contributes more to relationships facilitating corporate access than what public interaction does (Soltes, 2014).

Concluding the Equity Analyst section:

The weight that analysts allocate to non-financial information hinges on the nature of the company being covered (Orens & Lybaert, 2010). Company-specific factors are the drivers for the relevance of non-financial information for analysts (Ibid). While research evidences a significant increase of non-financial information in the content of annual reports, it appears as analysts are choosing to use the additionally voluntary non-financial information in two categories mainly: *forward-looking information*, and the *internal structure of a company* (Orens & Lybaert, 2007).

The authors continue by arguing that these findings document a narrowing in the gap between the information required by analysts and the information provided by corporate managers with support from the resulting increase in voluntary disclosed non-financial information. The question that remains to be answered is whether the same applies to CSR disclosure as well? The next section will discuss this in further detail.

2.2 The usefulness of CSR information for Equity Analysts

"…much [up to 1986] has been written about what information users ought to find useful for their decision-making; comparatively little has been written about what the users themselves appear to find useful in practice, and why." - Day (1986, p. 295)

2.2.1 Equity analysts and CSR disclosures

Previous research investigating the usefulness of CSR disclosure has generated blended outcomes (Krasodomska & Cho, 2017). While various studies evidence that such disclosures have a limited usefulness for its users (Deegan & Rankin, 1997; Milne & Chan, 1999; Campbell and Slack, 2010; Dawkins, 2004; Orens & Lybaert, 2007; Krasodomska & Cho, 2017; PwC, 2007), others document its usefulness (Fieseler, 2011; Cormier et al., 2011), or increased expected future importance (Campbell & Slack, 2008; Murray et al., 2006; Solomon and Solomon, 2006).

Starting with a study conducted by Deegan & Rankin (1997), the authors found that only 43.8% of analysts considered environmental issues to be material and that the likelihood of them to seek such information in annual reports was low. The opposite held true for financial information such as profits, net assets, cash flows and dividend payments which were considered significantly more important (Ibid). In a later study, targeting financial analysts in London, the authors found that investment recommendations issued to clients were not particularly influenced by CSR disclosures (Deegan & Rankin, 1999). In line with this, Milne & Chan (1999) found that social information was largely ignored and had a limited impact on investors decisions, as opposed to financial information due to its limitations in the ability of communicating precise and direct impacts on risks and returns of the firm. In addition to this, it was further noted that corporate social disclosures were only deemed useful when they related to activities impacting on a company's cash flows (Ibid).

In a later study by Dawkins (2004), it was found that a large portion of the respondents indicated that an increased access to CSR information could eventually lead to having an increased effect on their decisions, but that many ascribed low assessments to such disclosures at the time of the study. Similar type of reasoning was documented by PwC (2007) where CSR disclosures were ascribed limited usage by the analysts surveyed. The economic effects of a firm's activities relating to social and ethical issues appeared to not be of any significant interest for the respondents, and they further documented that respondents regarded descriptive information to be outdated and biased (Ibid).

Extending further on the topic with more recent research, we identify similar line of reasoning in the findings by Campbell & Slack (2010) suggesting that analysts consider environmental reporting to be immaterial and generally ignored. The reason for this relates to the perceived limitations of its decision-usefulness with the general perception among analysts interviewed being that environmental information is irrelevant for 'mainstream' decisions and regarded as incomplete. Worth to mention is that Campbell & Slack (2010) investigated the decision-usefulness of environmental disclosure in annual reports, focusing on its materiality and perceived importance in the assessment of banks. Although focus of their study was placed on banks, striking similarities are to be found in a recent study by Krasodomska & Cho (2017) who investigated the usage of CSR information by both sell-side analysts and buy-side analysts in general. Their findings evidenced that CSR disclosures are used very rarely by both groups and that importance attributed to such disclosure was limited, but that both groups were in favour of making more frequent use of such information (Ibid).

Concluding the research review above we learn the following:

1. There is currently no consensus regarding the usefulness of CSR disclosure. However, there are clear indications that previous research lean towards analysts perceiving the usefulness of such information to be limited.
2. Financial information is considered more important than non-financial information.
3. CSR information appears to be of interest if there is a link to a firm's cash flows - i.e., a financial impact.

The review above sheds light on an interesting dimension worth being evaluated in the context of conclusion 3), that is: are cash flows not the result of a firm's operations? Intuitively, we find the answer to be "yes". Is business exposure not an inherent aspect arising from a firm's operations? Intuitively, we once again find the answer to be "yes". In that case, since CSR comprises several elements which in fact have material impact on a firm's operational performance - how does analysts respond to that? The next section discusses this in further detail.

2.2.2 CSR in the context of business exposure

When analysing how CSR disclosure is considered in the context of business exposure, it becomes evident that approaches differs depending on which stakeholder group that is in focus. The literature assumes that philanthropy foster strong relationships with the community and thereby contributes to an enhanced sustainability of the firm through its continued support (Campbell et al., 2002). This line of reasoning is extensively supported in previous research disguised in various shapes, with the bottom line argument attributing CSR to improved stakeholder relationships resulting in: lowering the risks of regulatory interventions, penalties and thereby reduction in the outflow of cash (Guay et al., 2004; Renneboog et al., 2008), as well as, increasing the value of firms' and lowering equity cost of capital (Dhaliwal et al., 2011).

However, similarly yet contrasting to this view is that CSR disclosure, from the perspective of analysts, is primarily viewed through a lens of economic priorities with emphasis placed on financial aspects. More specifically, analysts view CSR issues in light of economic priorities and rationales with environmental and social issues being considered to have a strong impact on a firm's opportunities and potential of future success (Fieseler, 2011). In other words, CSR activities are viewed as an *element* of a firm's risk and financial management efforts (Ibid). In line with this, Hoffmann & Fieseler (2011) argue that analysts consider CSR when forming an impression of a firm since exposure to intervention and regulations have an impact on a firm's profitability.

Related to the view of considering CSR in light of economic priorities follows the findings of Eccles et al. (2011), which suggests that analysts are primarily interested in greenhouse gas emissions (GHG) and it derives from the fact that financial implications of GHG are *easier to quantify* and therefore *possible to integrate in their models.* Consequently resulting in GHG to be incorporated by analysts in their investment recommendations (Ibid).

2.2.3 CSR and Equity Analysts Stock Recommendations

Even though analysts use of CSR disclosure and its perceived usefulness appears to be very limited (as was illustrated in section 2.2.1), we find evidence from previous research suggesting a different scenario when it comes to its importance in relation to analysts' stock recommendations and its association to the financial market.

This is strengthened by Ioannou and Serafeim (2015) who claims that CSR performing companies are subject to more favourable analyst recommendations and that firms of more visible character are increasing their probability of beneficial recommendations when they participate in CSR activities. Furthermore, it is argued that CSR disclosures are more likely to be perceived as a component in value creation by more *experienced* analysts which possesses CSR knowledge (Ibid). Continuing on this, Orens & Lybaert (2010) found that *"...a higher amount of non-financial information is used by less experienced financial analysts and by financial analysts covering a higher number of firms"*. We find the latter as possible to be interpreted in relation to the findings of: 1) Soltes (2014) claim that a consequence arising for analysts covering a higher number of firms is that they are less likely to have private conversations with management, and we argue further that this gives weight to, 2) Cormier et al. (2011) that CSR disclosure reduce information asymmetry in the capital markets.

Following Ioannou & Serafeim (2015), Dhaliwal et al. (2011, 2012) documented the following relationships between, 1) a more dedicated analyst coverage and firms exhibiting exceptional

CSR performance, 2) reduced forecast errors and reduced spread for companies disclosing CSR information of better quality, and 3) reduced equity cost of capital and increased firm value coupled with CSR disclosure. The latter is in line with the findings of Jo & Harjoto (2011) which suggests that firm value is positively impacted by CSR engagement.

Elaborating further on stock recommendations, Ioannou & Serafeim (2015) documented interesting findings where they identify what they call as *"...a shift in logics"* regarding CSR disclosure for the so-called "pre-2003-period" and the "post-2003-period". More specifically, they document that high CSR ratings in the early 1990's generated more *pessimistic recommendations* for firms, while the opposite held true for the post 2003-period which revealed that recommendations became less unfavourable for firms with high CSR ratings. We argue that their results are highly relevant to the subsequent findings of Hsu et al., (2017) which documented consistent evidence by finding that the impact of positive CSR performance on analysts forecast revisions occur only in the post-2003 period.

An alternative approach of viewing this was highlighted by Xueming et al. (2015) who suggests that analysts' recommendations mediate the relationship between corporate social performance and firm stock returns, by revealing that corporate social performance is being *integrated* in recommendations issued to investors. Thus, the authors argue that their findings *"...reveal an information-based underlying mechanism for the link between corporate social performance and financial performance"*, which we find interesting when relating it to a significantly earlier study by Chan and Milne (1999, p. 266) where the authors analysed the news direction (good or bad news) of CSR disclosures and stated that: *"UK City analysts are driven by the requirements of their clients, which they interpret to be primarily a positive financial outcome on the clients' investments. Issues considered moral or emotional are not seen as part of the analyst's remit"*.

Concluding and analysing the review above, we make the following interpretations:

1) There is a risk highlighting the fact that if analysts refrain from considering CSR as an integral element associated to financial outcome, it ought to continue being ignored due to an analyst's own subjective perception of what in fact poses a relevant remit.

2) Pressures by mainstream investors need to increase for CSR to be considered as an aspect part of an analysts' remit, especially when considering that analysts seek to accommodate their information needs.

2.2.4 A perspective on the reasons behind its limited use, its potential, and the accompanied loss due to companies' failures

"...managers genuinely believe that they try to give the market the information it wants. But most analysts and investors believe managers could try harder" - Eccles et al. (2011, p. 189)

Criticism of environmental disclosure narratives included in annual reports relates to the information being biased, self-congratulatory and to consist of limited negative environmental information (Deegan & Ranking, 1997). Whereas Milne & Chan (1999) argue that social information fails to communicate relevant information for the decision making of users, while also highlighting its potential role by stating: *"There seems no apparent reason why textual disclosures of social performance could not be made more relevant in terms of their impacts on future cash flow for the types of investor in this study. The point is that most firms do not do this. The vast majority of annual report social disclosures tend to be narrative, self-congratulatory—some would say PR puff—and, based on the results of this study, are not considered useful for investment decision making."* – (Ibid, p. 452)

The potential role of the usefulness that CSR disclosure has in decision making was also highlighted in a later study by Solomon & Solomon (2006) who found that publicly available social, ethical and environmental (SEE) disclosure in fact was decision-useful, but *inadequate* to be included in portfolio investment decisions. Hence the reason for why sophisticated private SEE disclosure channels had been developed to supplement the lack of availability (Ibid). Other kinds of related criticism are evidenced in numerous studies with emphasis being placed on its lack of transparency, incompleteness, self-servingness, insufficientness, and even dishonesty (Gray, 2006; Unerman et al., 2007; Krasodomska & Cho, 2017; Aras and Crowther, 2009; Guidry & Patten, 2009).

The failure of disclosing decision-useful CSR information becomes even more important when contrasting it to the study conducted by Guidry & Pattern (2009) which involved companies issuing their first sustainability report. Findings revealed that investors reacted differently depending on the *quality* of the report and the authors found evidence of a relationship between quality of the report and market reaction, where higher quality was associated with a more positive reaction as opposed to lower quality which exhibited the opposite (i.e. negative) reaction. Their findings remained firm also when assessed for company size and socially exposed industries, and the authors related the consistency of these findings to Godfrey's (2005) argument by claiming that: *"...stocks of reputational value are increased only when actions are viewed as meaningful representations of a firm's underlying corporate social responsiveness. Acts considered as disingenuous, in our case, the issuance of lower quality reports, appear to be viewed by market participants as actually eroding reputational value"* (Guidry & Patten, 2009).

Interpreted differently, their evidence suggests that firms need to consider the quality of their sustainability reporting if they are to gain any value from such disclosures, especially since only providing the report in itself is insufficient (Ibid). Instead, the authors claim, the report should include meaningful information about environmental and social aspects because *"...the quality of the report matters"* (Guidry & Patten, 2009).

2.2.5 Implication of previous research and the challenges of corporate communication going forward

"Companies are beginning to realize the need for improved disclosure and reporting on social and environmental performance..." - Hockerts & Moir (2005, p. 95)

Evidence documenting investors increasing interest in CSR disclosure also expects the developing trend to be sustained going forward (Campbell & Slack, 2008). In line with Murray et al. (2006), they accentuate investors' growing usefulness of such information, while at the same time, emphasizing the necessity for its amount and quality to increase in annual reports and claim that there is a growing interest of such disclosure (Ibid).

Along with the fact that CSR issues are increasingly becoming part of mainstream investment analysis, so does the importance of communicating about CSR aspects to participants of the financial community (Fieseler, 2011). Emphasis is particularly placed on those with roles responsible for reporting it, and firms need to continuously monitor the quality of the information they report with consideration being taken for segments, assets classes and geographies due to the different needs of various users (Eccles et al., 2011).

Moreover, Hoffmann & Fieseler (2011) state that the quality of a firm's communication is among the most important factors for equity analysts in forming an impression of a firm. Corporate reporting, thus, becomes even more important, especially when considering Krasodomska & Cho (2017) findings suggesting that analysts would welcome more CSR disclosures. Consequently, the growing demand of CSR information regarding firms' policies puts a heavier weight on investor relations (IR) professional's ability to gear the information towards the need of the financial community (Fieseler, 2011). However, to succeed with this, IR professionals need to understand how users perceive CSR to successfully report useful information for their investment decisions (Ibid). This gains even more importance as pressure on firms' ability to identify, address and communicate about risks and value-creation opportunities to the capital market are expected to continue increasing in light of environmental and regulatory developments going forward.

Another way to look at it, is how it also represents an opportunity for CSR performing companies due to the growing sentiment in sustainable investments, but it also requires that firms can tailor their communication towards CSR aspects relevant for investors (Fieseler, 2011). That is, *"Investor relations professionals must develop the ability to clearly display and explain the link between CSR and the creation of shareholder value."* (Ibid). The author elaborates further on this and explain it as: *"...companies can profit from strategically addressing the topic of CSR in capital market communications – if it is framed not only as a cost, a constraint or a charitable deed. In other words, capital markets will consider CSR more relevant if companies describe it as a benefit to shareholders, a source of opportunity, risk prevention and competitive advantage".* Once again, to succeed with this, it is crucial that IR first understands which information that in fact is useful for the main users of their disclosed information - in this case, financial analysts (Ibid).

3. Research method

The following section describes and motivates the methodological approach used to answer our research question. Section 3.1 describes our research design, this is followed by section 3.2 which addresses data collection, while section 3.3 explains data analysis, and lastly section 3.4 which discusses research quality.

3.1 Research design

3.1.1 Theoretical approach

Limited research investigating the decision-usefulness of CSR information from the perspective of sell-side equity analysts as a distinct capital market participant calls for an exploratory study aimed to examine which CSR information analysts find as useful (Edmondson & McManus, 2007). Based on previous research, suggesting an emergent but still limited investigated research area, a qualitative study with semi-structured interviews was deemed as an appropriate methodological fit for collecting empirical data (Edmondson & McManus, 2007). The in-depth interviews allowed us to obtain a profound understanding of which CSR information equity analysts considered as relevant, while also serving as a mean for collecting our empirical data. Two primary reasons served as the basis for why we chose a qualitative approach for the study:

1) Qualitative methods in areas warranting further research due to limited previous research are suitable to be examined further through an exploratory study (Yin, 2003). This line of reasoning is further supported by Edmondson & McManus (2007) who suggests that qualitative methods as a research approach enhances the understanding of the researcher through the collection of empirical data, while at the same time forming the perception of the researcher. Since the aim is not at examining the robustness of current research but rather to develop it further, a qualitative approach becomes appropriate due to its inherent flexibility which also provide opportunities to adapt follow-up questions on emerging topics (Bryman & Bell, 2011).

2) Since the aim is to study which CSR information equity analysts consider to be useful, consequently their point of view is what becomes of importance. This implies that the study should investigate the issue from the perspective of analysts, which makes a qualitative method

appropriate considering the fact that doing so involves an ongoing process (Bryman & Bell, 2011).

Having the above mentioned in consideration, we deem the chosen method as suitable to examine which CSR information analysts find as useful and to find out how its incorporated in their investment recommendations.

3.1.2 Research Approach

In accordance with what was touched upon in 3.1.1, our purpose is to study the issue from the perspective of analysts to contribute further to the understanding of the phenomena instead of testing previous research. The choice derives from the fact that previous research of CSR in the context of financial markets in general, and in relation to equity analysts in particular, have primarily been of quantitative nature. Despite the increasing emergence of qualitative research in the field with a growing number of published articles since 2000, fact remains that it is still far from the amount of quantitative research that has been made.

In conducting a research, one could use an inductive approach or a deductive approach (Eisenhardt & Graebner, 2007). These two approaches, although similar in nature, varies in their starting point for how the study is approached. An inductive approach allows the author to formulate theory guided by the empirics, which sets the direction of the study, while also serving as the 'take-off' point from where additional theory will be developed (Eisenhardt & Graebner, 2007; Dubois and Gadde, 2002). In contrast to this, a deductive approach tests theory through the formulation of hypotheses which are used to test empirical data, while assuming previous research as its 'take-off' point, as opposed to the inductive approach which, as mentioned earlier, uses the empirical data as its 'take-off' point (Eisenhardt & Graebner, 2007).

The limited amount of previous research investigating the decision-usefulness of CSR information for sell-side equity analysts as a distinct capital market participant makes a pure deductive approach unsuitable. In addition to this, for research that has been conducted on decision-usefulness, the definition of 'analysts' has in many cases been loosely applied and included actors other than sell-side analysts with no distinction being made between them, despite clear differences in the roles of the various actors. Examples highlighting this limitation is evidenced in several studies such as: Deegan & Rankin (1997) which among others included stockbrokers, research analysts, and accounting academics; Milne and Chan (1999) which included both accountants and investment analysts; Krasodomska et al. (2017) which included buy-side and sell-side analysts; while Solomon & Solomon (2006) based their study on buy-side investors.

Contrary to these, focus of our study is specifically targeted on the perspectives of analysts from the sell-side, and we recognise them as a distinct actor in the capital markets. This enables an avoidance of mixing views from different actors in different roles. For reasons as such, we deem an abductive approach to be the most appropriate as it combines inductive and deductive approaches. Dubois & Gadde (2002) mentions in their study that an abductive approach is fruitful if the researchers' objective is to find new things, with the main concern of generation of new concepts and development of theory, rather than confirmation of existing theories, which goes in line with what our objective and purpose with the study is. Furthermore, the abductive approach is described to enrich the study by creating new combinations through a mixture of old theories and new concepts derived from the empirics and reality (Dubois & Gadde, 2002).

Given this, we began our study in line with what Strauss and Corbin (1990) argued for, which is that one should not review all literature before conducting the study, but rather that the need for theory is created in the process. Even though we found it important to conduct a comprehensive literature review to begin with, space was left to go back when developing the empirical fieldwork. Thus, the literature review was revised throughout the writing process as empirical findings surfaced. This, to enrich the study by finding the interesting combinations that Dubois & Gadde (2002) describes are to be found in the abductive approach.

3.2 Data Collection

To investigate what CSR information, sell-side equity analysts find useful, and how they incorporate it into their investment recommendations, semi-structured interviews were chosen as data collection method. Consequently, 14 semi-structured interviews were conducted with either currently active sell-side equity analysts, or previously active equity analysts, as well as one additional interview conducted through email since the respondent could not meet in person. It was necessary to gain access to as many analysts as possible for the validity of the findings, access was primarily given with the help from a former equity analyst who possess several years of previous experience within the field and has a track record of several top rankings in Sweden during his active career. The individual in question reached out to former colleagues, which also served as the basis for the level of seniority among the majority of our interviewees.

All of the respondents in both groups were contacted through email and asked to participate in the study with a short introduction including the research question, the nature of the study, and the focus on equity analysts with regard to CSR. The email was standardised to make sure that everyone received the same information to ensure consistency. All of the respondents belonged to firms with office locations in Stockholm except from one respondent which was located in London. This enabled interviews to be conducted in person after consent was given, except from the case with the analyst in London. That interview was instead done through Skype. Each interview was arranged at the convenience of the respondents and scheduled for one hour but lasted between 30-45 minutes. The scheduled interviews with respondents located in Stockholm took place at their respective offices in most of the cases.

A prerequisite for conducting the interviews was the guarantee of full anonymity, this was of particular importance in the case with the more senior respondents since it was not uncommon for them to appear in newspapers asked for comments by journalists. The guarantee of anonymity made the interviewees comfortable to talk freely about their views and provided a more nuanced picture of how things looks like in reality according to their own perspectives. Interviews took place between April 2018 - August 2018. In total 26 individuals were contacted, among which 15 agreed to participate, whereof the majority were males 13 and 2 females. The interviewees belonged in total to ten different institutions, all of which, interviewed by the authors with approval to record the interview in order to be transcribed for the subsequent analysis. The variation of firm affiliation served as an attempt to widen the perspectives on the matter.

The questions asked were divided into three sections with the first one addressing “annual report review”, followed by “environmental disclosure decision-usefulness”, and lastly the “link between corporate disclosure and equity analysts”. The format of the interview template was structured to guide the respondents to answer open ended questions related to the research question, with emphasis placed on having minimal impact on their objectivity to achieve as nuanced answers as possible, while at the same time, being able to find out how it is done in practice.

3.2.2 Conducting semi-structured interviews

A semi-structured interview approach was used. The semi-structured interview approach is characterised with asking open-ended questions that are determined beforehand, while still allowing for follow-up questions to gain new insights. This is especially fruitful for abductive research, since the empirics is less coloured by the researchers' assumptions (Bryman, 2011). Before the interviews took place, an interview guide was created. However, the guide was not followed strictly, rather, we asked follow-up questions and took alternative paths when opportunities surfaced, yet however within the scope of the initial interview template in order to ensure that the intended questions were answered.

In order to establish report and set up a comfortable environment, we began with an introduction of the study and told about ourselves, followed by asking simple general questions to the analyst before we asked if we could start recording and begin with the interview.

3.3 Data Analysis

As being discussed in 3.2.1, the abductive approach implies data analysis parallel to the collection. In practice, every interview was transcribed and read through by both authors to minimize our biases, which is in line with Flick (2009). After this, we separately selected quotes and coded them under different themes to discuss them and try to find similarities and differences. This was done in line with Esaiasson et al. (2017) who say that it can be beneficial to compare the actors' sayings. Thereafter, we together formed the main headings of which we thought represented the key material in order to answer our research question, and after this, we separately read through our domain theory, so we could compare and develop both the literature review, but also to analyse the empirical data. This was done parallel and continuously while forming the empirics, in line with the abductive approach.

3.4 Research Quality

In terms of research quality, there has been many discussions on which terms to look at for the assessment of qualitative research quality. For quantitative studies, validity and reliability are used extensively in order to evaluate the quality (Koch & Harrington, 1998), however, Lincoln & Guba (1985) argued that the terms credibility, dependability, confirmability, and transferability are important to look at when creating *trustworthiness* in qualitative studies. They argue that the goal with creating trustworthiness is to pursue the inquirer to find the findings to be "*worth paying attention to, worth taking account of*" (Lincoln & Guba, 1985, p.

290). This is, according to the authors, especially important when conducting qualitative research without a theory-based model. Going into the terms that Lincoln and Guba (1985) argue are important when establishing trustworthiness;

Credibility

A way to create credibility is to use mixed sources of data. In our case, we have interviewed analysts at different firms, with various backgrounds, years of experience, roles, ages and genders to establish credibility. Furthermore, in order to ensure that we received trustworthy data, the findings of the interviews were analysed and compared against the previous work in the literature review throughout the writing process. Moreover, Lincoln and Guba (1985) expresses that the most useful technique in order to establish credibility is "member checking", that is, when data, interpretations and conclusions are tested with the interviewees afterwards. This was done throughout the interviews, by orally asking the interviewees if our interpretations and conclusions of what they said was in line with what they *really* meant.

Transferability

Transferability relates to the question if the findings are applicable in other contexts and settings. A useful technique that can be used in order to establish transferability is according to Lincoln and Guba (1985) to produce a "thick description". This implies describing the phenomenon in detail to the extent that the findings and conclusions are transferable to other contexts and settings. Thus, we have tried to produce a thick description by collecting almost seven hours of interview data that was coded and transcribed.

Dependability

Dependability implies that if another researcher follows the exact same procedures and do the exact same kind of study as we have done, they would come to the same conclusions and findings. Therefore, it is deemed very important to document all the steps in the writing process and conduct every step very structurally and according to a certain plan. In our case, we have recorded and transcribed every interview, saved interesting quotes in separate documents, and saved all drafts that have been used in the writing process. Our interpretations of the interviews have also been sketched up in a "discussion" document, where we presented our thoughts and ideas for potential outlines. Thus, our structured approach to the study increases the dependability to the extent that another person would, hopefully, be able to follow our steps with the same result being repeated.

Moreover, Lincoln and Guba (1985) also suggests that a useful technique for establishing dependability is to let another researcher examine the process and product of the thesis. This was done several times by fellow students at SSE.

Confirmability

The confirmability factor is about the degree of neutrality or the extent of researchers' bias. According to Lincoln and Guba (1985) there are multiple techniques to develop confirmability. One of them is triangulation. In our study, we have used both triangulation of sources by using sources at different firms with different settings, as well as analyst triangulation, by separately analysing and coding the data and thus getting two different perspectives on the material. The goal with the analyst triangulation is not to reach consensus on the data, but rather give multiple ways of looking at the data. Moreover, we also used the technique of using "external audits" - by letting fellow students evaluate whether our interpretations and conclusions were supported by the collected data.

4. Empirical Findings

The following section present our findings from the interviews which were aimed at answering our research question. The beginning of the section provides a brief description of the empirical setting for analysts and the process for how they assess a company's annual report in order to form an opinion of the company, which is followed by the interviewees perception of CSR disclosures, divided under subheadings.

4.1 An analyst's approach to evaluate the annual report

The evaluation of Telia's annual report revealed clear traits of similarities in the evaluation process among the interviewees. Even though order of priority for the different sections considered key in several cases varied, the core type of information that all of the interviewees focused on remained the same. These were: financial statements, company description, comments by the CEO, and market overview. Despite differences in their order of priority, all of the interviewees shared the same rationale for why focus were on the chosen sections, namely: to understand what type of company it is. This made sense since the starting point in all interviews was to answer the question as if it was the first time they had ever looked at the company and as if they possessed no prior knowledge of the company whatsoever.

4.2 CSR-information: Unread and Immaterial

The general perception among the majority of our interviewees was that CSR disclosure normally was unread, Analyst 1 commented: *"I have never read a CSR report. I don't look at CSR"*, followed by Analyst 3 who said: *"I never use it, I don't even need to have it. It's completely useless"*, and Analyst 2 who said: *"I have never read the CSR part in any report actually"*.

Analysing the interview responses allowed us to identify four categories in which the reasons to why CSR disclosure was unread and ignored could be placed within - we labelled this group as the "sceptics" (i.e., those who ignore CSR disclosure). This was possible because even though their formulations in one way or another differed from each other, all of them shared a rationale which we noticed could be categorized into one of four themes: *quantifiability*, *comparability*, *irrelevance*, and *demand*.

4.2.1 Quantifiability

Several analysts repeatedly expressed the challenges to calculate on CSR aspects and highlighted the difficulties with incorporating such information into actual numbers in their valuation. Analyst 10 commented: *"It has limited usage because it [...] usually isn't possible to calculate on. It's hard to find what you can calculate on, what does this mean for the company in actual money?"*. The same analyst commented further that *"The reported information does not allow me to know if it is profitable to reduce emissions [...] Are they a good citizen? And if they're a good citizen, are they making money on being that?"*. Similar line of reasoning was repeatedly mentioned throughout the interviews with emphasis placed on the currently absent, although significantly important, linkage between CSR initiatives and the financial impact on companies.

The attitude among the majority of the sceptics were largely influenced by the quantifiability parameter, which in turn impacted on their perception regarding the informational value of CSR disclosure and its usefulness.

"What could be better is how it should be linked to the financial one (financial statements). Can it be quantified? Can they say, "This contribution will increase our turnover by 2%?", if it cannot be quantified, then it is not important". - Analyst 3

4.2.2 Non-comparable

The comparability aspect is repeatedly mentioned among the sceptics. In particular, the difficulties to compare between companies, not only in different sectors, but also in the same sector and between direct competitors. The shared consensus among the majority of the sceptics is that such limitations practically renders any additional usefulness of CSR information to be very limited. Almost all of the sceptics referred to this issue by making use of the metaphor *"comparing apples to apples"*, with several of them highlighting the absence of any standardized measure, score or number measuring how well companies are performing in this area as the basis for allowing any reasonable comparison between similar companies to be non-existent.

In addition to this, three other interviewees also mentioned a highly interesting perspective related to the determination of *how* different components in CSR are valued.

"Then the question is how to compare between companies: is a company that has the most sustainable cotton production more sustainable than the company which has the lowest level of child labour? It is difficult to compare between companies" [...] *"Currently, it is not possible to compare apples with apples between companies, and the core that can be used to calculate in actual money is very limited. Unfortunately, it seems as CSR accounting is more of a consultancy product"* - Analyst 10

Analyst 13 elaborated further on the inherent difficulties associated with comparability by referring to a case involving Volvo and SKF a few years ago. The interviewee mentioned that both companies produced sustainability reports even larger than the annual report itself, but that both companies measured things *differently*, which made any attempt to compare their CSR performance very difficult. This in turn resulted in lost interest since it became too complex and difficult. Similar line of reasoning was mentioned in various interviews with the sceptics highlighting the inherent difficulties for comparison and thus limited informational value due to the difficulties of placing the information in any context.

4.2.3 Irrelevance

Repeatedly mentioned among the sceptics was the perception of how CSR disclosure and annual reports are considered as marketing material, sometimes even with influences of political correctness, according to Analyst 15.

"The problem is that an annual report is nothing but a marketing document - therefore you will always see all the good things done, but very rarely what is being done badly"- Analyst 4

The problem of companies' willingness to only report what they do well was a recurring theme highlighted by the interviewees. They meant that companies with good CSR performance are very willing to report and describe everything they do well thoroughly, while the opposite holds true for companies with bad CSR performance. Examples highlighting this was given by Analyst 6 who commented: *"Obviously, it fails. Companies that are bad at it (CSR) do not want to go through and tell how bad they are. So they just disregard it and disclose a standardized environmental report instead, which in turn is completely meaningless.*", followed by Analyst 8: "*Companies that are very good at these questions are more than happy to report a lot about everything they're doing and to describe how good they are, while companies that are not good at this obviously do not talk about it as much".*

Another important perspective regarding the content of the report related to the materiality of what in fact is being addressed and the reality of it. Several interviewees claimed that critical information of such importance that it, in fact, would have had an impact on their assessment of the company would not be reported anyway.

"When it comes to specific CSR aspects, I do not think there are any specific aspects that are useful, because when it comes to corruption and so forth, that's not going to be highlighted in the CSR report, and that's why it's not of great use to me" - Analyst 3

In other words, the general perception was that the real issues were not what companies disclosed, but rather that information currently disclosed was nothing else than marketing material and philanthropy. Analyst 4 explained it as *"Due to the absence of any standardization - there is no major body that says, "this company gets 8 out of 10 in CSR". My opinion is that they are utterly useless in the sense that it just becomes an opportunity for companies to boast by for example saying, "look here, we built a school in Bangladesh" - which is great, but it* *will be more like a marketing event than something that actually says something about the company's attitude towards sustainability and ethical investments".* Followed by Analyst 2 who continued in the same line and described CSR as a type of cosmetics the company make use of to tell investors that *"...of course we are looking for CSR*", while in reality, it is not used due to its irrelevance.

4.2.4 Demand

Lastly, many of our interviewees claimed that the reason for not using CSR information was due to the lack of demand from investors or customers. Repeatedly highlighted throughout the interviews was the comment about their job being to provide investors with the information they demand, and that this in most cases did not involve CSR-related disclosures. Some interviewees commented that a request on information regarding carbon dioxide emissions (or similar) had never been received. Although one analyst mentioned that it may be important from some aspects, such as in terms of how customers of a company may end up looking at a particular company, it still remained to become relevant enough in order for it to be a demand for that type of information.

> *"Mainly simply because my customers do not request them, but also because they do not allow quantitative analysis and cannot be integrated into my valuation models" [...] "In regard to carbon dioxide improvement, etc., I have never received such a question from a customer, so it has never been important for me to look at it*". - Analyst 3

4.3 Users of CSR-disclosures

However, even though all of our interviewees highlighted the limitations with quantifying CSR information and the difficulties with incorporating it into their valuation models, significant differences were evidenced in regard to the attitude towards its usefulness for analysts' in their assessment of companies. As evidenced above, for the majority of the interviewees whose focus were on the difficulties with quantifying the information, it was very common that they ignored it without any further consideration. The opposite held true for those who viewed CSR information as an integral element used to understand the company's operations and business model. Analyst 6 explained it as:

> *"Environmental issues will always become an economic issue for companies sooner or later, it's just to wait and see. Either the company works with it, or they are just stupid because*

regardless of what, it will eventually become an economic issue and you can see it clearly with companies who understands this from their proactive work with it"

What those advocating the importance of CSR information had in common was the perception of how it permeates all the way through the company's operational activities. Their attitude towards CSR was that it provided them with a deeper understanding of the business model, which in turn help them understand if there are any advantages in efficiency, processes, distribution opportunities or anything else related to the company's operations. Analyst 6, quoted above, meant that CSR issues are directly relevant to the same aspects which relates to parameters associated with a company's ability to reach out with products to customers and accessibility. The analyst referred to this as "market access" and meant that it is useless for a company to have a superior product if it is not able to deliver it to their intended end users, and that the gap between intended reach and actual outcome is largely related to CSR aspects as well.

4.4 Relevant elements and aspects of CSR

Aspects repeatedly mentioned to be relevant in CSR-disclosures were primarily related to governance, emissions, reputational, and social risks. All of which were emphasized in light of economic priorities and in most of the cases, from a risk risk-management point of view. However, we noticed that the aspects our interviewees mentioned as important were merely a reflection of the companies they covered.

"If a company operates in an industry with significant reputational risks, operations in countries with widespread corruption and so forth, then you'd want to look further into CSR. I would rather have done this in a broader analysis, when I'm going to estimate the risks of the company and find out how they work with minimizing their risks. In that case, CSR can be an interesting part to look at (from a risk management point of view)" - Analyst 7

Another perspective was highlighted by Analyst 4 who mentioned three themes that were central in the assessment of CSR, 1) Environmental, 2) Social, and 3) Governmental. The same analyst developed this further and commented that these themes form a framework that all analysts at the company must use: *"When we look at companies then we have something called ESG that we have to flag for each investment. Just because there must be some kind of a damn sustainability thing"* - Analyst 4

Moreover, during the interviews, we noticed that interviewees in several cases gave different examples and scenarios for when CSR would become relevant and cause them to look further into it. Although their examples and scenarios differed significantly from each other, we managed to identify that this actually derives from a theme we came to define as "*triggering factors*". Several interviewees, including the sceptics, mentioned that the opposite held true (concerning the ignorance of CSR information) if the company had any kind of a negative track record. That is, if an incident related to CSR had happened before, that particular case would direct their focus on CSR aspects and make them look further into it to find out why it happened, and to figure out if it might happen again. The same applied for companies operating in industries or geographies exposed to substantial risks.

"If it is a company that operates in a dirty industry with substantial reputational risks, or is present in countries with significant corruption, then you might want to look further into the CSR aspects to estimate the risks for the company and (find out) how they work to minimize them" - Analyst 1

Analyst 7 commented on this in regard to Telia by saying: *"I would have looked at CSR in the case with Telia because they're currently in a litigation process related to CSR - it's about corruption"*, followed by Analyst 9 commenting: *"I look very limitedly at CSR, it depends however on which company it is. In this case, I might have looked at it since Telia has recently faced problems with it. The same goes for a mining company in Africa, in that case I spend much more time on CSR information"*.

4.4.1 Sector Differences

In terms of sector differences, all of the interviewees agreed that the importance of CSR information differ depending on which industry a company operates in. Typical high risk sectors such as sin-industries (gambling, tobacco, weapons and so forth) are often mentioned when asked on differences, the same applied for mining, construction, and retail. Depending on which industry the company operates in and what it does might render CSR information to be relevant, while it in other sectors may be considered as irrelevant.

“Different industries have different challenges. Gambling companies must demonstrate that they work to curb gaming abuse in their platforms. Oil companies must show that they protect the environment in an extra carefully manner. Mining company as well. Prospecting companies must show that they respect the local population's ownership, etc. Very different from industry to industry.” - Analyst 5

Moreover, some interviewees also argued how the reporting within different sectors affects the credibility of the entire CSR-concept. One example was given of an IT-firm, which produced intangible products, but yet reported carbon dioxide emissions in relation to its revenues. The interviewee highlighting this example meant that the coupling and matching between CSR-disclosure and aspects relevant to the industry in question in some cases were so poor that the entire concept of CSR disclosure loses its credibility. The same interviewee commented further that the lack of possibilities to compare across sectors makes CSR-disclosure unusable in some cases due to the different factors and circumstances that needs to be taken into consideration depending on the characteristics of the industry a particular company is operating within. A related, although different view on the matter, was further highlighted by Analyst 2:

“*Telia may have small emissions in the delivery of products, but if you have a heavy industry company like SSAB, they damage the environment much more because they produce steel. At the same time, you probably have Europe's cleanest steel production - so they're good themselves, but maybe still dirty compared to others. So, there are very big differences in which areas that are interesting. Then everyone talks about corruption, and the overall risk of child labour - but every industry has its own challenges besides the general*”

4.4.2 Sin-industries

Going into sin-industries, some interviewees mentioned Swedish Match (a tobacco company) and Svenska Spel (a gambling company) to shed light on the difficulties with determining what good CSR in fact is. Emphasis was placed on how these companies might have great CSR efforts in place with excellent performance in terms of gender equality in top management, and various initiatives for charity and so forth, but at the end of the day, fact remains that these companies are destroying people’s lives. The interviewees meant that the answer to the question of what can be considered good vs. poor CSR differs from sector to sector and is difficult to determine. Furthermore, some interviewees also commented on how companies operating in “dirty industries” often allocate much more resources to communicate about CSR-issues than other companies due to the perceived need of reassuring the public of not being bad citizens.

*"Svenska Spel, owned by the government, have the most bizarre slogan of all, what they say is more or less: "We have the least competitive prices - we keep the most money for ourselves to make it discouraging for players so they play less". While at the same time, Svenska Spel is the top 10-20 biggest advertising buyer in Sweden! It's double foul - they make bigger profits on the poor players who want to play, and they promote it by being among the biggest advertisement buyers. Why the **** should I believe that their CSR work is credible at all? It's called double standards and they are hypocrites!"*

4.5 Incorporating CSR into Investment Recommendations

The incorporation of CSR-related information can be divided into two camps, those who use it and those who do not, with the majority of the interviewees stating that they do not incorporate it. Also, among those incorporating it, the majority of the interviewees agreed that CSR is primarily incorporated from a perspective of down-side into their investment recommendations. I.e., good CSR work will rarely lead to a more beneficial recommendation.

4.5.1 Not-incorporating

Looking at those who do not incorporate it into their investment recommendations, most of the interviewees gave similar reasons as those presented under section 4.2, namely: immateriality, non-quantifiability, non-comparability, and lack of demand.

"*I do not incorporate it at all, I do not even know how this would be possible to do, and I don't even care to be honest. How am I supposed to incorporate something that I cannot quantify? Doing so would be nothing else than a pure guessing-game*"- Analyst 15

Several interviewees highlighted the fact that attempts to incorporate CSR has taken place within their firms and that discussions for how it should be done is going on. However, none of them had managed to find a solution yet, but several of the interviewees emphasized that the work is in progress and that guidelines and models for how to incorporate it most probably will be in place in the near future. Moreover, some of the interviewees mentioned their awareness of a link between poor CSR and lower equity value, but that difficulties were putting a stop for them to successfully being able to incorporate it.

“The company is developing a framework for CSR to be used in all our analysis, a type of screening based on XYZ that is something to be implemented in all our analysis and which all analysts should take into account in some way and show in the analysis that "this is what it looks like from the CSR analysis by the way”. However, I do not yet know what we will take into account for our recommendations or valuation because either one thinks that the stock will go up and give a buy recommendation, or you think it will go and recommend a sale... (Considering that) then maybe it does not matter if they have 50/50 guys and girls in the management team.” - Analyst 2

Another important perspective related to the concept of time horizons. Some interviewees discussed the fact that valuation and investment recommendations are based on the short-term, while impact from CSR aspects becomes evident in the longer-term. This collision served as an argument motivating the reason for not incorporating the longer-term effects associated with CSR information into their shorter-term analysis, and therefore rendered it as unimportant.

4.5.2 Incorporating

Even though most of the interviewees mentioned that CSR information is not incorporated into their investment recommendations, the opposite held true for a few of them who claimed that aspects relevant to CSR are an integral part of their overall assessment and the associated investment recommendation. An example highlighting a scenario where CSR was an integral element in the investment recommendation was given by Analyst 7 who stated the following:

“In Kindred's case (gaming company), I wrote an analysis arguing for that they will be able to defend their margins due to their presence in regulated markets, because we’ve seen that as markets become regulated, a drop in margins takes place”

A related scenario is when a company find itself to be in the risk-zone somewhere in the near future, in a situation like that, it is the down-side that would be incorporated in the investment recommendation.

“If we then take a CSR question and I have a company that everybody knows has ticking bombs here and there, and I've included it in my forecasts but the price has rushed through what you think the company is worth and a bit more - then it's a sell recommendation. The question is then what should I have for arguments for selling the stock? I have taken into

account that X and Y can happen, and the share is over/undervalued based on my analysis." - Analyst 11

4.5.3 CSR aspects and their impact on valuation in practice

In terms of the effect on valuation in practice, the following parameters were mentioned by the interviewees as common to be adjusted: the weighted average cost of capital (WACC), P/E and EV/EBITDA, as well as forecasts, among which, the WACC was most commonly mentioned as the parameter to be adjusted, Analyst 1 commented: "*To the extent that I perceive that there is a CSR risk, I add a risk premium for how I calculate future profits"*, followed by Analyst 11: *"If you have big scandals with mines that leak or contaminate, or lawsuits due to poisoning catastrophes, all of this appears by a quick 'Google-search' on a company. Every now and then there is something that makes me react and realize that there is something I have to add to the analysis. In 9 out of 10 cases, it is difficult to find out only through the company's reporting, so I increase the risk premium in my DCF. If I would have a WACC of 8% for a competing company, I would set the WACC to 9% for this company".* Analyst 14 on the other hand, commented that an adjustment of the multiples would be preferred instead since a formal decision was needed in order to adjust the risk premium.

Moreover, two analysts stood that stood out from the rest allowed CSR aspects to affect the valuation both ways, i.e. up- and downwards. Analyst 6 commented that it is obvious to be a value-driver, and also mentioned that "*This (CSR-information) is something that is undoubtedly integrated into the valuation of the company"*, which is in line with Analyst 13: *"This can be reflected by having higher growth and better margin, giving you a higher value than you would otherwise have through these initiatives. Otherwise, you say "Yes, with these initiatives, I think you should have a higher value". If it (for instance) is EV/EBITDA, depending on which industry, then you can say that these measures (CSR aspects) contribute to higher growth and higher margins coming here in the future, and therefore I think I should give a higher value to the multiple as well. Instead of P/E 10, there should be P/E 11 on this company. It can thus be reflected in both ways."*

To conclude the discussion above, there is no consensus regarding whether CSR is useful or not for the valuation and investment recommendation. Some of the interviewees adjust the WACC to affect the valuation since they consider it to provide a better picture of the company's operations, while others consider CSR aspects as irrelevant and therefore find no reason for why, or how, these should be incorporated in the valuation.

4.6 Potential materiality

Almost all of the interviewees, regardless of whether they belong to those who use CSR information or not, expressed opinions regarding why the information is considered immaterial and difficult to use. The interviewees agreed on that information provided by companies is too complex, comprised of too much immaterial information which generally was described in words together with irrelevant charts, and maybe most importantly, that information reported by companies fail to meet the informational demands of analysts.

"It has limited usage because it is non-standardized, non-transparent and it usually isn't possible to calculate on. It's hard to find what you can calculate on - what does this mean for the company in actual money? [...] There isn't any company that takes a step back and ask the question: "what information is in fact relevant to report on the company?" - Analyst 10

An interesting perspective highlighted by two interviewees related to the possible reason of the current absence in relevance of decision-useful information in CSR disclosures. This, they claimed, derived from differences in backgrounds between those responsible for reporting the information (which they referred to as "environmental people and lawyers"), and those who use the information ("finance people"). They meant that while "finance people" are very digit-driven, the opposite holds true for "environmental people and lawyers" (more focused on the "soft areas" and more expressive in words), which explains why CSR disclosure in general is expressed in qualitative terms rather than quantitative.

"Many sustainability managers are not finance people, they are for example lawyers, etc., and they have a way of communicating, which can sometimes be problematic, because we are very digit-driven - we want a number to use" - Analyst 12

Several interviewees gave similar ideas for how to improve the materiality of CSR disclosures, more specifically, how to improve the coupling between financials and CSR information.

"*There must be a method, or a way to link CSR to profit, in order to make it relevant. Alternatively, that my clients develop some kind of criterion so that can they can evaluate* *whether a company is more or less investable, or that that a company is more worth if it has a certain rating. Any kind of quantification must exist in order to make the link relevant for my part."*- Analyst 3

"*What would cause such a change is whether the companies would present key ratios that can clearly link to increased profitability, higher margins, higher sales, or increased competitiveness."* - Analyst 10

What several interviewees considered key and as the main driver for CSR disclosure to eventually have a real impact, was the development of recognised and general accepted measures similar to the P/E or EV/EBITDA multiples for which there is a shared understanding of what they represent. The interviewees meant that it currently was not possible to compare apples with apples between companies and the core that can be used to calculate in actual money is very limited.

"*I would say that it's so new to all parties in this, it's new to companies that publish information, it's new to stakeholders who share the reports, it's hard to know what to compare it to, hard to know what a certain type of index says, and it's strange also because you have to compare apples with apples and not apples with oranges.*" - Analyst 2

An alternative suggestion for improvement was highlighted by Analyst 4 who commented that either one may start thinking about using a similar model to the one in the United States, i.e., mandatory filings under the SEC for quarterly and annual reports where it is directly illegal to ignore some of these pieces, or, that there should be an independent third-party institution with a similar function as S&P in terms of issuing ratings but with focus on CSR aspects instead.

A recurring theme for when CSR information has been better than usual involved situations when the disclosure was concrete and quantifiably expressed. Real Estate companies were repeatedly mentioned to be better on this since it is common for them to disclose information on energy savings and heating costs, which in turn, can directly be incorporated in the valuation by analysts.

“What I would like to have is more numbers. Real Estate companies are good at it and (they) talk about energy saving and heating costs - I like it. Generally, quantifying things will be much better than showing pictures of happy children” - Analyst 7.

Additional examples of when the disclosures were useable and good were given by two other analysts. In the first example, one analyst mentioned that GM said in 2012 that 25% of their profits came from recycling and expressed that it was useful since it was hands-on and explained something concrete. In the second example, another analyst talked about ICA that had presented information regarding food waste and increased margins, which was a good way to communicate according to the analyst. The same analyst concluded that when companies try to explain why they do as they do, in monetary terms, it is much more accessible, and meant that it was the key in getting sustainability to break through for real.

The length and size of the CSR disclosures are also problematic according to the interviewees. Analyst 11 expressed it as *“...an orgy in disclaimers”*. The optimal size was according to Analyst 12 around five pages with clear and concise information, rather than having it larger than what the annual report sometimes is.

“Adapting this better to analysts and investors needs would mean that it is much more quantifiable and comparable to companies in the same industry. It would have to be summarized in a much better way. I do not need 150 pages of sustainability reporting, it's completely meaningless. There is no analyst/investor who reads more than one tenth of it, shorten, summarize and make sure that it is quantifiable and can be counted on, but also that there is a link between earnings and profitability!” - Analyst 10

A contrasting view compared to the majority of the interviewees was provided by, Analyst 9 who meant that it is not companies themselves that should become better and improve their CSR disclosures, but rather the analysts.

"If I'm totally honest, I think it's better for analysts to improve. The companies present fairly ambitious sustainability reports, and I think that the time we spend on looking at it may not be so much" - Analyst 9

5. Analysis

In this first section of the analysis, we present our empirics in relation to previous research by comparing and contrasting the material, and in the second section, we build on the previous research by discussing what information the analysts in fact demand, and how IR can supply them in accordance.

5.1 Comparing and Contrasting

There are both similarities and differences between previous research and our observations from the interviews. To compare and contrast these, we have separated the section into the following subheadings.

5.1.1 Usefulness - divided and unagreed

Our observations regarding the usefulness of CSR-disclosures is in line with previous research to some extent, but also differs from it in ways. To begin with, according to previous research, there is no consensus in regard to the usefulness of CSR disclosure, however, the majority of sources find a lack of usefulness. For example, criticism is evidenced in several studies with emphasis placed on its lack of transparency, incompleteness, self-servingness, insufficientness, and even dishonestness (Gray, 2006; Unerman et al., 2007; Krasodomska & Cho, 2017; Aras and Crowther, 2009; Guidry & Patten, 2009). In the empirics, we observe similar findings confirming previous research through the identification of four categories relating to the reasons for why CSR disclosures was unread and ignored by the group we labelled as the "sceptics". These were: *quantifiability*, *comparability*, *irrelevance*, and *demand*.

Quantifiability

Several analysts repeatedly expressed the challenges to calculate on CSR aspects and highlighted the difficulties with incorporating such information into actual numbers in their valuation. Analyst 10 commented: *"It has limited usage because it [...] usually isn't possible to calculate on. It's hard to find what you can calculate on, what does this mean for the company in actual money?"*. This goes well in line with Milne and Chan's (1999) study in which they noted that corporate social disclosures were only deemed useful when they related to activities impacting on a company's cash flows.

Comparability

The shared consensus among the majority of the sceptics is that limitations practically renders any additional usefulness of CSR information to be very limited. Almost all of the sceptics referred to this issue by making use of the metaphor *"comparing apples to apples"*, with several of them highlighting the absence of any standardized measure, score or number measuring how well companies are performing in this area as the basis for allowing any reasonable comparison between similar companies to be non-existent. In addition to this, three other interviewees also mentioned a highly interesting perspective related to the determination of *how* different components in CSR are valued. Analyst 10 said: "*Then the question is how to compare between companies: is a company that has the most sustainable cotton production more sustainable than the company which has the lowest level of child labour? It is difficult to compare between companies"*. A similar observation was found in Orens and Lybaert's (2010) study, who meant that the weight that analysts allocate to non-financial information hinges on the nature of the company being covered.

Irrelevance

The conception of irrelevance was found in the analysts' interpretation that companies' willingness to only report what they do well, which was a recurring theme highlighted. The interviewees meant that companies with good CSR performance are very willing to report and describe everything they do well thoroughly, while the opposite holds true for companies with bad CSR performance. This goes in line with Campbell & Slack's (2010) suggestions that analysts consider environmental reporting to be immaterial and generally ignored. The reason for this related to the perceived limitations of its decision-usefulness with the general perception among analysts interviewed being that environmental information is irrelevant for 'mainstream' decisions and regarded as incomplete.

Demand

Many of our interviewees claimed that the reason for not using CSR information was due to the lack of demand from investors or customers. Repeatedly highlighted throughout the interviews was the comment about their job being to provide investors with the information they demand, and that this in most cases did not involve CSR-related disclosures - this can be compared to Chan and Milne (1999, p. 266), who stated stated that: *"UK City analysts are driven by the requirements of their clients, which they interpret to be primarily a positive* *financial outcome on the clients' investments. Issues considered moral or emotional are not seen as part of the analyst's remit".*

Moreover, we noticed that analysts, in general, were very pessimistic towards the informational value provided in CSR disclosures with words as "unquantifiable", "PR-stuff", "immaterial", and "unusable" frequently mentioned throughout the interviews. However, even though the majority of the interviewees assumed a sceptical view towards CSR, there were still some analysts who found it very important and as a must-have in the analysis. The question then is: ***What separates them from the others?***

According to Ioannou and Serafeim (2015), CSR is more likely to be perceived as component in value creation by more experienced analysts possessing CSR knowledge - which is exactly in line with our observations. The two interviewees that stood out throughout the interviews considered CSR information as part of the key information to be considered in the assessment of companies. These two were also the most experienced in equity research among our interviewees. Thus, our observations confirm Ioannou and Serafeim's (2015) findings that a more experienced analyst is more likely to incorporate and use CSR related information.

Relevant CSR aspects and the important connection to profitability

Moreover, even among the interviewees who did not incorporate CSR information to a larger extent, similar answers to when it would be particularly useful was given. Aspects repeatedly mentioned to be relevant in CSR-disclosures were primarily related to governance, emissions, reputational, and social risks. All of which were emphasized in light of economic priorities and in most of the cases, from a risk risk-management point of view. This is also in line with previous literature. More specifically, Fiesler (2011) found that analysts view CSR issues in light of economic priorities and rationales, with environmental and social issues considered to have a strong impact on a firm's opportunities as well as the potential of its future success. In the same vein, Hoffmann & Fieseler (2011) argued that analysts consider CSR when forming an impression of a firm, since exposure to intervention and regulations have an impact on a firm's profitability. Thus, analysts seem to find CSR information useful when it further down the line can have an effect on the firm's profitability. However, important to highlight is that it is not CSR-information per se that is considered as useful, but rather the potential consequences and effect on future financials that can be derived from the disclosures by analysis and estimation. A perspective of this was also given by Solomon & Solomon (2006) who found that SEE disclosure in fact are decision-useful, but *inadequate* to be included in portfolio investment decisions. The latter is in line with the argument above - there must be a connection to profitability or financials in order for CSR-information to *become* useful.

Evaluating the analysis above sheds light on the fact that it ultimately boils down to two parameters: *materiality* and *relevance* within the context of the possibility to interpret decision-useful information in the assessment of companies - which in turn appears to be dependent on the presence of the profitability connection. This provide support to the comments of Milne & Chan (1999) regarding how corporate reporting fails to communicate relevant information for the decision-making of users in their social information, while simultaneously highlighting its potential role:

> "*There seem no apparent reason why textual disclosures of social performance could not be made more relevant in terms of their impacts on future cash flow for the types of investor in this study. The point is that most firms do not do this. The vast majority of annual report social disclosures tend to be narrative, self-congratulatory—some would say PR puff—and, based on the results of this study, are not considered useful for investment decision making*".
>
> - Milne & Chan (2011, p. 452)

Triggering factors arising from historical events

Furthermore, we noticed how several interviewees discussed situations that would cause them to look into CSR more closely. Despite their unawareness along with the significant differences evidenced in their examples and scenarios, we managed to identify that the core of what they were discussing circulated around a theme we labelled as "*triggering factors*". That is, CSR disclosures *becomes* useful, in a similar way as the connection to profitability discussed above, *if* the company has experienced negative exposure in the past, and it is not until something has happened that CSR information starts being useful. To clarify, the triggering factors were, similarly to the profitability discussion above, ultimately viewed through a lens of economic priorities, but in this case, derived from a track record taking historical events in consideration. Examining the literature review, we cannot find a similar phenomenon, instead we find rather black-and-white descriptions of why or why not the information is used.

An alternative view on investors' demand in the context of an analysts remit

Throughout the interviews, several analysts emphasized the fact that they simply are an intermediary delivering a product adapted according to their investors demands. In other words, they add value to investors by transforming a substantial amount of public information into a decision useful format for investment decisions but focus *only* on the information that investors ask for and demand. We find some support for this line of reasoning in previous research place, with emphasis put on Chan and Milne (1999, p. 266) who stated that: *"UK City analysts are driven by the requirements of their clients…"*. Thus, our analysis on this issue leads us to four different perspectives:

Firstly, the explanation that CSR is not useful due to the lack of demand seems like nothing but an excuse to not read and use it - most likely due to the lack of knowledge and associated difficulties for how to incorporate it. We support our reasoning drawing on the assumption that CSR information in fact comprises the same potential of adding value like any other value-relevant information - *if interpreted correctly*. That is, even though investors do not explicitly demand it, but an analyst can calculate on and incorporate CSR-information - then, why should this not be of interest to investors? It seems like several analysts use the "investors' lack of demand"-argument as a justification for not looking at CSR-information, while they instead, should consider it as an opportunity to provide in-depth analysis superior to the one provided by their peers. Furthermore, we argue that the resulting impact from this kind of reasoning is that they miss out out on value relevant information as a result of their inability to interpret this type of disclosure.

We support our reasoning above by drawing references to the evidence exhibited in the evaluation process of the most experienced interviewees, where CSR information was considered integral to be used in understanding the company's operations and business model. What these interviewees had in common was the perception of how CSR aspects permeates all the way through the company's operational activities. Their attitude towards CSR was that it provided them with a deeper understanding of the business model, which in turn helped them understand if there were any advantages in efficiency, processes, distribution (or similar) to a company's operational aspects. Analyst 6 even meant that CSR is key in *"market access"* and that the gap between intended reach and actual outcome of products sold is largely related to CSR aspects.

Secondly, as touched upon in the beginning of this section, but in this case with emphasis placed on the role of mainstream investors', relates to that analysts argue, in some cases, that the reason to lack of usefulness is the result of mainstream investors' lack of demand in such disclosure. In these cases, pressure may need to increase in order for CSR to be considered as an aspect part of an analysts' remit, especially when considering the fact that analysts seek to accommodate their informational needs. We noticed that this kind of pressure is currently taking place with several analysts witnessing how various frameworks currently are in progress of being developed. While this confirms Campbell & Slack (2008) expectation of the increasing interest in CSR disclosure to be sustained going forward, and Murray et al. (2006) suggestion of a growing interest of such disclosure, we identify that the common theme among these frameworks is that they all require the analyst to go through, summarize and "tick off" certain factors.

However, being tied to a certain framework and just "tick off" certain factors seems like a very blunt tool to incorporate CSR-information efficiently. As analyst 4 expressed: *"When we look at companies then we have something called ESG that we have to flag for each investment. Just because there must be some kind of a damn sustainability thing"*. If the analysts themselves cannot understand and agree with the incorporation of CSR-information through a framework, it seems like the implementation was doomed to be fruitless in the first place.

Thirdly, as discussed in conclusion 1) in section 2.1.3 and focusing on analysts in particular, we identify a risk highlighting the fact that as long as analysts refrain from considering CSR as an integral element associated to financial outcome, it ought to continue being ignored due to an analyst's own subjective perception of what in fact poses a relevant remit. We find evidence supporting this conclusion in findings by Campbell & Slack (2010) who suggests that analysts consider environmental reporting to be immaterial and generally ignored. The reason for this relates to the perceived limitations of its decision-usefulness with the general perception among analysts interviewed being that environmental information is irrelevant for 'mainstream' decisions and regarded as incomplete.

Lastly, and possibly a new dimension contributed to the discussion on the topic is related to the concept of *time horizons*. Some interviewees discussed the fact that valuation and investment recommendations are based on the short-term, while impact from CSR aspects become evident in the longer-term. This collision served as an argument motivating the reason for not incorporating the longer-term effects associated with CSR information into their short-term analysis for the simple reason of it being unsuitable. Although previous research has examined this area within the context of among others materiality and investors demand, we have not seen the dimension of time horizons being highlighted.

After all, some of the analysts argue that the lack of incorporation is due to lack of demand from the investors, but when a demand appears and the investors (or firms) put pressure on analysts to incorporate the information, it seems like the pressure is put in such a way that the strategy to get the analyst to make use of the information becomes quite toothless. Even though the incorporation of frameworks is beyond this paper's scope, it is nevertheless an interesting observation on how analysts perceive CSR-disclosures.

5.2 Building on previous literature - What do analysts demand and how can IR improve

To answer our research question, we aim to further build on previous research by presenting and analysing what kind of information that analysts actually demand, and further on, portray perspectives on how IR can improve in order to meet these demands.

Reasons for immateriality

The interviewees agreed on the conception that information provided by companies is too complex, comprised of too much immaterial information which generally was described in words and with different charts, and maybe most importantly, that information reported by companies does not meet the informational demands of analysts. Similar reasoning can also be found in the literature, for example, according to Deegan & Rankin (1997), criticism of environmental disclosure narratives included in annual reports is often lifted and relates to the information being biased, self-congratulatory and consisting of limited negative environmental information. However, in addition to this, the interviewees repeatedly highlighted the trend of current CSR-disclosure being *too long* - sometimes even longer than the annual report itself. Or as one analyst expressed *"...it has become an orgy in disclaimers"*.

When comparing CSR-disclosure to the more commonly used data in the annual report, clear differences in accessibility becomes evident. In order for analysts to incorporate and use the disclosures, they must *transform* the information which is more or less only written in text, into numbers than can be incorporated into their models or calculations. An alternative approach, explicitly highlighted by the more experienced interviewees, was to arbitrarily incorporate the information into the recommendation without transforming the data into numbers. As one analyst said, "*I have taken into account that X and Y can happen, and the share is over/undervalued based on my analysis*". However, the analysts that arbitrarily incorporated the information also belonged to the group with most experience, which again was in line with Ioannou and Serafeim (2015) findings regarding the correlation between experience and incorporation.

"Finance people" vs. "Environmental people and Lawyers"

An interesting perspective highlighted in the empirics, and which to the best of our knowledge has not been addressed in previous research yet, relates to a new dimension in regards to possible reasons for the absence of relevant information in CSR disclosure which derives from differences in background between those responsible for reporting the information ("environmental people and lawyers"), and those who use the information ("finance people"). They meant that while "finance people" are very digit-driven, the opposite holds true for those responsible of reporting it. The latter, they claim, are more focused on the "soft areas" and more expressive in words, which explains why CSR disclosure in general is expressed qualitatively rather than quantitatively.

> *"Many of the sustainability managers are not finance people, they are for example lawyers, etc., and they have a way of communicating, which can sometimes be problematic, because we are very digit-driven - we want a number to use"* - Analyst 12

However, the issue with contrasting these two groups to each other and have it as a basis for explanation of the current issue is in our view an oversimplification of reality and it fails to address the entire issue. Although support for this line of reasoning, from a logical perspective, is merited, it fails with taking the entirety into account, which also relates to the difficulties in managing a balanced communication of CSR activities to the capital markets as highlighted by Fieseler (2011) regarding different stakeholders approaching firms with different expectations and perspectives. Elaborating further on Fieseler (2011), we believe the core of the difficulties associated with communicating CSR disclosure to derive from the different perspectives from various stakeholders to, perhaps, in the case of CSR, increase the difficulties with communicating decision-useful information even more. While we notice that analysts are interested in such type of information through an economic lens, the same is not guaranteed when it comes to other stakeholders - which from the company's point of view, might be of equal importance. An example highlighting such type of group is journalists where potential of impacting negatively on a company's reputation and the accompanied consequences could be of significant importance. We therefore argue that corporate communication is more complicated than simple differences in backgrounds, especially when it is considered in a larger context where presence of unique informational interests are being taken into account, or as Fieseler (2011, p. 132) commented, *"...in the broader context of corporate communications, it is often difficult to offer a balanced but compelling presentation of CSR activities – professional capital market participants' views on the matter and those of the broader public may well be in conflict."*

Ideas on how to improve materiality

Furthermore, many interviewees gave similar ideas on to how improve the materiality of CSR disclosures, although the strongest references related to the improvement of the coupling between financials and CSR information, other areas were identified as well, namely: comparability and concreteness.

"There must be a method, or a way to link CSR to profit, in order to make it relevant. Alternatively, that my clients develop some kind of criterion so that can they can evaluate whether a company is more or less investable, or that that a company is more worth if it has a certain rating. Any kind of quantification must exist in order to make the link relevant for my part."- Analyst 3

"What would cause such a change is whether the companies would present key ratios that can clearly link to increased profitability, higher margins, higher sales, or increased competitiveness."- Analyst 10

What several interviewees considered as the main driver for CSR information to eventually have a real impact was the development of recognised, and general accepted measures in similar fashion as the shared understanding of what ratios such as P/E or EV/EBITDA multiples represents. The interviewees meant that it currently is not possible to compare apples with apples between companies, and the core that can be used to translate into actual money is very limited.

"I would say that it's so new to all parties in this, it's new to companies that publish information, it's new to stakeholders who share the reports, it's hard to know what to compare it to, hard to know what a certain type of index says, and it's strange also because you have to compare apples with apples and not apples with pears." - Analyst 2

A suggestion for improvement was highlighted by Analyst 4 who commented that either one may think about using a similar model to the one they have in the United States, i.e., mandatory filings under the SEC for quarterly and annual reports, where it is directly illegal to ignore some of these pieces, or alternatively, that there should be an independent third-party institution with a similar function as S&P in terms of issuing ratings, but with a focus on CSR aspects instead.

"Investor relations professionals must develop the ability to clearly display and explain the link between CSR and the creation of shareholder value." - Fieseler (2011, p. 143), the author elaborated further on this and claim that: *"...companies can profit from strategically addressing the topic of CSR in capital market communications – if it is framed not only as a cost, a constraint or a charitable deed. In other words, capital markets will consider CSR more relevant if companies describe it as a benefit to shareholders, a source of opportunity, risk prevention and competitive advantage."* - (Ibid, p. 143)

6. Conclusion

In this first section of the analysis, we present our contributions that answers our research question, and in the second section, we continue by discussing some of the limitations as well present suggestions for future research.

6.1 Contributions

This study explores analysts' conception of CSR information and whether it is useful in their assessment of companies, and more specifically, what kind of CSR information that can provide value in the assessment. Earlier research shows that there is currently no consensus regarding the usefulness of CSR disclosure, however, there are clear indications that previous research lean towards analysts perceiving the usefulness of such information to be limited. Furthermore, Krasodomoska & Cho (2017) proposes that there is a need to explore this area deeper, by focusing on attempting to increasing the usefulness of CSR disclosures by identifying the reasons behind its limited use by analysts, as well as investigating which CSR information analysts find necessary and important, in future research. Through the means of an interview-study, we identified possibilities of increasing the usefulness of CSR disclosure by finding what information equity analysts consider as important and necessary.

In line with previous research, we found a number of recurring factors to why the CSR disclosures was unread and ignored by the analysts, which were: *quantifiability*, *comparability*, *irrelevance,* and *demand*. These factors are matched to the criticism evidenced in several studies with emphasis placed on its lack of transparency, incompleteness, self-servingness, insufficientness, and even dishonestness (Gray, 2006; Unerman et al., 2007; Krasodomska & Cho, 2017; Aras and Crowther, 2009; Guidry & Patten, 2009), and our study can thus confirm these findings related to why the CSR information was not used by referring to these factors. On the contrary, we found factors to when the CSR disclosures were considered material and relevant. Aspects repeatedly mentioned to be relevant in CSR-disclosures were primarily related to governance, emissions, reputational, and social risks. All of which were emphasized considering economic priorities and in most of the cases, from a risk risk-management point of view. Thus, analysts seem to find CSR information useful when it further down the line can influence the firm's profitability. However, important to highlight is that it is not CSR-information per se that is considered as useful, but rather the potential consequences and effect on future financials that can be derived from the disclosures by analysis and estimation - there must be a connection to profitability or financials for CSR-information to *become* useful.

Building on Chan and Milne (1999) who found that analysts are driven by the requirements of their client, however, the explanation that CSR is not useful due to the lack of demand seems like nothing but an excuse to not read and use it - most likely due to the lack of knowledge and associated difficulties for how to incorporate it. We support our reasoning on the assumption that CSR information in fact comprises the same potential of adding value like any other value-relevant information - *if interpreted correctly*. This goes somewhat in line with Ioannou and Serafeim (2015) and Orens & Lybaert (2010) who found that more experienced analysts are more likely to incorporate and use CSR related information, as they find it value relevant.

In distinction to earlier research, which has been lacking in exploration of improvements, we found different ideas on how to develop the materiality of the disclosures. The strongest references related to the improvement of the coupling between financials and CSR information, but other areas were identified as well, namely: comparability and concreteness, relating to a potential development of recognised, and general accepted measures in similar fashion as the shared understanding of what ratios such as P/E or EV/EBITDA, or the appearance of an independent third-party institution with a similar function as S&P in terms of issuing ratings, but with a focus on CSR aspects instead.

These findings are relevant as it can contribute to the understanding of how investor relations (IR) professionals could tailor the information geared towards the needs of the analysts, which in the long run can enhance the analysis.

6.2 Limitations

Naturally, the study is limited by the design or methodology that impact the conclusions and findings from the research. To begin with, the sample size of the study might be too low and not randomly sampled, for us to find significant relationships that can be representative for the sell-side analysts as a group. Moreover, using analysts from various industries but not equally many in each industry respectively, might limit the possibility to generalize the results. Using a larger sample of analysts following one or two specific industries would offer better opportunities to find generalizable results, as it would portray how the analysts, as a group, find CSR disclosures.

6.3 Future research

For future research, it would be interesting to explore the area of CSR and usefulness, but within a certain niche. That is, one could interview analysts in sectors or industries where it is presumed that they would use it, for example in sin-industries. Among our interviewees, it was noted that the favours of CSR incorporation were dominantly covering companies with high associated risk. This would be interesting to dig deeper into.

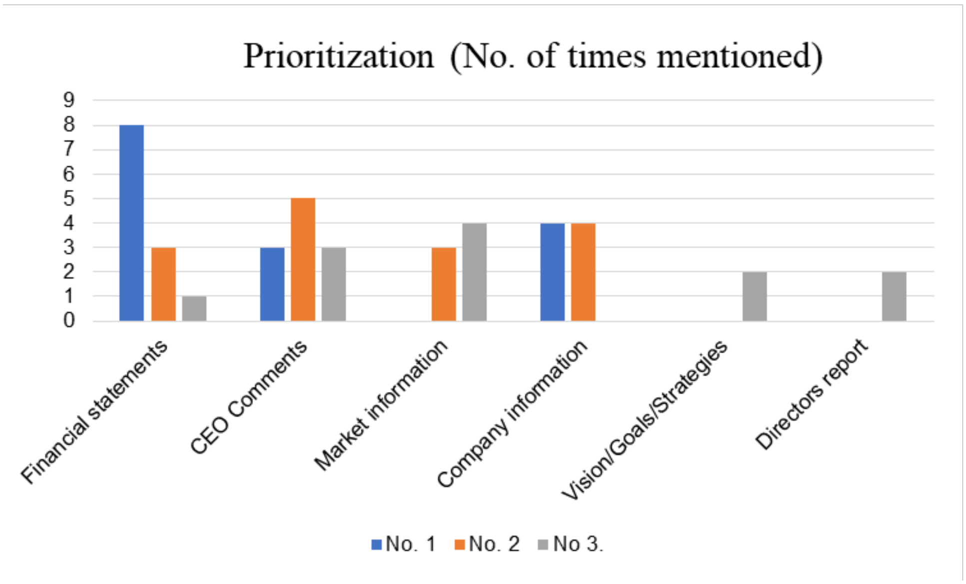
Furthermore, it would be interesting to interview the other actors of the playground – the investment relation. How do they look at the CSR disclosures? Do they find it important to tailor the message to the analysts? We have not found many studies that explores the relationship between the investment relation and the analysts, so this relationship would certainly be interesting to explore.

An interesting observation in the empirics that is beyond the scope of this paper relates to the implementation of frameworks. There are more and more firms that are demanding the analysts to follow a certain framework and ”tick off” boxes for CSR-related factors. This has never been seen before in Sweden and would thus be very interesting to explore.

7. Appendix

Priority among interviewees

	1	2	3
1	Financial statements	CEO Comments	Vision/Goals/Strategies
2	Financial statements	CEO Comments	Directors report
3	Financial statements	CEO Comments	Directors report
4	Company information	Financial statements	Vision/Goals/Strategies
5	Financial statements	Company information	Market information
6	CEO Comments	Market information	Finacial statements
7	Company information	Financial statements	Market information
8	Financial statements	Company information	CEO Comments
9	CEO Comments	Company information	Finacial statements
10	Financial statements	Market information	CEO Comments
11	Company information	Market information	Finacial statements
12	CEO Comments	Financial statements	Market information
13	Financial statements	CEO Comments	Market information
14	Financial statements	Company information	CEO Comments
15	Company information	CEO Comments	Financial statements



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