BENEFITTING FROM CORPORATE SOCIAL RESPONSIBILITY REPORTS: EXAMINING THE PRACTICES AMONG EUROPEAN FINANCIAL INSTITUTIONS

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Riku Kasperi Hyppänen
Corporate Environmental Management
Tiina Onkila

ABSTRACT

Author Riku Kasperi Hyppänen	
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Abstract

This research focuses first on how the European financial institutions consider the existence of corporate social responsibility reports in relation three different theories. Second, I examine those practices, through which the European financial institutional have decided to utilize the information disclosed in the corporate social responsibility reports. The research questions are based on the attempt to first understand the reasoning behind the disclosures, and to then analyze the processes that are in place with a purpose of benefitting from the corporate social responsibility reports.

The reasoning behind corporate social responsibility reports deals with three different theories, including the stakeholder theory, shareholder theory and legitimacy theory. These theories can all be used in explaining why the company management has decided to commit to producing corporate social responsibility disclosures.

Before the main interviews, I conducted several preliminary interviews, which paved an important way for the actual research. The main interviews were conducted through qualitative, semi-structured theme interviews. These interviews took place during the summer 2016, and they were mainly conducted via email The research results were discussed in three different groups including the investors, the investment banks and the financial service providers. To support the research, the interviewees provided me with additional materials, which helped me in forming a better overall picture of the situation.

According to the research results, the investors were highly dependent on the third party data provided by the financial service providers. In the field of investment banks, the views on the benefits of the disclosures were polarized. The financial service providers considered themselves as an underappreciated stakeholder group, and they had clearly the most sophisticated processes in place when it came to taking advantage of the information disclosed in the reports.

Keywords: financial institution, stakeholder theory, shareholder theory, legitimacy theory, corporate social responsibility reporting, investment process

LIST OF FIGURES AND TABLES

CONTENTS

1 INTRODUCTION

For a company, corporate social responsibility reporting has become one of the main forms of communicating non-financial information, such as the environmental matters, social and employee aspects, human rights, fight against corruption and the corporation's personnel structure to the company's' different stakeholder groups (KPMG 2015a). Disclosing such information has been on increase, even though its popularity varies depending on the reporting companies' cultural backgrounds and their geographical locations (Berhelot et al. 2012, Bloomfield 2002, Campbell et al. 2001, Cohen et al. 2012, Erragraguy & Revelli 2015, Reimsbach & Hahn 2013, Reverte 2012, Schadewitz & Niskala 2010).

CSR Reporting can be conducted on an annual basis, dynamically, or between pre-defined frequencies depending on the corporation's policy and its CSR strategy (KPMG 2013, KPMG 2015a). Further on, CSR reporting can be conducted in various different ways, however, the most common forms of disclosing information being the integrated report, the online report, and the standalone sustainability report. Some companies with significant CSR risks may consider continuous reporting as their approach (KPMG, 2015a). The structure of the disclosures can be chosen freely, or the company can report according to framework guidelines such as the Global Reporting Initiative (GRI). Considering the investor's benefit perspective, frameworks such as the GRI ease the investor's ability to conduct comparisons between different companies' CSR performances. For this reason, the investors have been studied to prefer the standardized reports to other forms of disclosure. Having consistent and comparable information makes integrating the disclosed information to a traditional investment analysis easier (Berhelot et al. 2012, Moneva & Cuellar 2009, Schadewitz & Niskala 2010).

Even though different companies have reported on corporate social responsibility for decades, whether these reports have provided the investors with important and equal information remains unclear (Cohen et al. 2012). Because of both their high level of power and their relatively significant ownership percentage, the institutional investors are one of the corporation's most important stakeholders, and their needs should not be dismissed. The importance of disclosing additional nonfinancial information is on increase, and for investors the general importance of quantitative data is emphasized because of its easier applicability to traditional investment analysis (Berhelot et al. 2012, Cohen et al. 2012, Moneva & Cuellar 2009, Schadewitz & Niskala 2010). However, the importance of qualitative information cannot be disregarded. Some academics even argue that sustainability reporting is to investors of no value (Solomon & Solomon 2006).

In this research, I first examined whether the existence of corporate social responsibility disclosures through the European financial institutions' eyes can be explained through three different theories including the stakeholder, shareholder and legitimacy theory. My findings supported the fact that none of the theories could be applied in full, but instead there existed several factors, which could be traced back to the three applied theories. To elaborate further, of all the three theories, the legitimacy theory was found to be the most applicable one.

In second part, I examined both how and if, the European financial institutions had decided to utilize the information disclosed in the corporate social responsibility reports. Further on, qualitative email interviews were conducted in order to gather the required information. These interviews were targeted at three different financial groups: the direct investors, the investment banks and the financial service providers. I discovered that the processes among different financial institutions varied significantly both within the interview groups and between the groups.

1.1 Research Problem

Some research has already been conducted in order to discover whether the investors valued corporate social responsibility reporting. These findings, however, have been of mixed results (Campbell et al. 2001, Cohen et al. 2012, Erragraguy & Revelli 2015, Reimsbach & Hahn 2013, Reverte 2012, Schadewitz & Niskala 2010). Campbell et al. (2001) and Bloomfield (2002) found out that considering European corporations, efficient CSR reporting had seemed to lead to a decrease in the firm's cost of capital. A positive impact on the share valuation had also been recognized. Similarly, Feng et al. (2015) investigated the informative value of CSR and concluded that both in Europe and North America CSR reporting could have been implemented in order to decrease the corporation's cost of capital.

Nevertheless, the European situation was not as black and white as Feng et al. (2015) suggested. Even though being a comprehensive study, it somewhat conflicted the findings by Reverte (2009), who had studied the CSR reporting of Spanish companies and observed that sustainability reporting among Spanish companies had had no significant effect on the companies' profitability or their leverage ratios. In contrast, in the study by Schadewitz & Niskala (2010), a positive value impact had been recognized among those Finnish companies who had published sustainability reports, and especially among those companies, which had reported according to the GRI framework.

Analyzing further the benefits of other standardized frameworks, Wahba (2008) had examined the connection between the ISO14001 certification and the companies' market valuations. What he found was that the implementation of an ISO14001 standard affected positively on the firms' market values and it seemed to decrease the risk profile of the company.

Yet, Hassel et al. (2005) had studied the relationship between company's market value and its environmental performance reporting among Swedish companies. However, no positive correlation between good environmental performance reporting and corporate market value had been discovered. Additionally, Hassel et al. (2005) did not stand alone, because a year later, Murray et al. (2006) continued by studying the relationship between a stock's performance and the quality of its social and environmental disclosures in the United Kingdom. The study concluded that no significant relationship between the two had existed.

As these findings show, the nature of the relationship between the European financial institutions and the corporate sustainability reporting is still uncertain and therefore more research in the field is needed. Through this research, I urge to narrow down the gap between the investors and the corporate social responsibility reports. Additionally, being a relatively fresh subject, the academics have not yet managed to examine the reasoning behind the existence of CSR disclosures according to financial institutions, or the ways these disclosures are among different institutions taken advantage of.

This research focuses on two areas. First I examine the reasoning behind the existence of CSR disclosures, and whether the characteristics of the chosen three theories can observably be recognized from the European financial institutions' point of views. Second, I concentrate on examining those practices among these financial institutions, which target at benefitting from the corporate social responsibility disclosures, and which are applied in practice among the different financial organizations. I target at bringing clarity to the question whether taking advantage of the CSR reports is a common form of behavior, or do the practices in the field vary between different types of institutions.

Before the actual study, I first conducted preliminary interviews in order to find out which companies were using the CSR disclosures in the first place. The actual research was conducted through a set of qualitative interviews, with a goal of discovering how, and if, the investors took advantage of the published CSR reports. These interviews included questions from four different categories, including the applicability of the explanatory theories, sustainability reports, investment analysis and the value transformation process. Further on, these categories included a subset of more in-detail questions. The interviews were then continued based on the first round answers. Extra value was added by the significant amounts of literature that was provided to me by the interviewees. This helped me in analyzing the organizational practices in a more detailed manner.

To summarize, my study seeks answers to the two following research questions:

1. *How do the European financial institutions reason the existence of corporate social responsibility reports in relation to stakeholder, shareholder and legitimacy theories?*
2. *How have the European financial institutions utilized the information disclosed in the corporate social responsibility reports?*

1.2 Definitions

CSR= Corporate Social Responsibility
Email=Electronic mail
ESG=Environmental, Social, Governance

EU=European Union
GRI=Global Reporting Initiative
IR=Investor relations
PR=Public relations
UN=United Nations
UNEP=United Nations Environmental Program

2 CORPORATE SOCIAL RESPONSIBILITY

The following chapter focuses on describing the field of and the recent development of corporate social responsibility. I will take a look at two separate definitions: the one by the European Commission, and by World Bank. After this, I examine the different development phases of CSR leading me to the current situation of the 21st century. Last, I will present the criticism that has been shown towards CSR, and the potential it poses once well executed.

2.1 Defining Corporate Social Responsibility

Corporate social responsibility is often linked to sustainable development. This, concept originates back to 1987, when United Nations World Commission on Environment and Development brought it up for the first time it in their report "Our Common Future". This report is also recognized as the Brundtland's Report. However, some academics have argued that CSR and sustainability are not equal, but in fact contradict one another (Gallie 1956, Matten & Moon 2004, Moon 2007). Connolly (1983) explains this by stating that the concepts are too complicated and open for interpretation and this may lead to several different understandings on what is understood as either sustainable development, or corporate social responsibility. Moon (2007) continues that perhaps because of these lavish definitions, the concepts are actually of little use. He adds that if despite this the concepts are used, perhaps CSR could then be understood as a term, through which the corporations enable sustainable development, because achieving decent level of sustainable development requires responsible business behavior. However, responsible business practices should not be understood as a necessity for enabling sustainable development (Moon 2007, Vogel 2005).

There exists no single definition for the term corporate social responsibility. Of the many definitions, the most commonly recognized are the definitions of World Bank and the European Union (Center for Ethical Business Culture 2015, Niskala & Pretes 1995).

The World Bank (2003) describes corporate social responsibility in the following way:

> "Corporate social responsibility describes the company's obligations to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit."

The definition of World Bank has two sides: first the definition recognizes the existence of different stakeholder and that they are influenced by the company's' actions. Further, the corporations through their businesses are recognized to have different obligations towards these stakeholders. In the second part, a socially responsible company balances its business operations with the complex needs of different stakeholder groups, and operates without compromising the environment.

The definition by the European Commission (2016) is shorter and differs by taking into account both the regulatory environment and the voluntary nature of CSR. According to this definition, corporate social responsibility is recognized as those voluntary based actions, which exceed the regulatory requirements, and which take into account the environmental and social impacts of the company's business. The corporations can become socially responsible by first following the law and by then integrating social, environmental, ethical, consumer, and human rights concerns into their business strategy and operations. However, it is important to notice that by simply following the rule of law, the characteristics of a socially responsible company are not met. Achieving corporate social responsibility requires voluntarism and by following the general rule of law, the company is only operating within the framework of the local legislation.

2.2 Development of Corporate Social Responsibility

Understanding the wider business impacts, which also account for the environmental and social aspects, is not new. Caused by business operations, these impacts were already recognized in the 1970's by Morrell Heald in his book called The Social Responsibilities of Business. Heald examined the impacts of business operations on their natural environment and on different sociological groups. His concerns were the planet's carrying capacity, food and water scarcity, employee wellbeing and the risen level of inequality among, and within nations (Center for Ethical Business Culture 2015). Meanwhile, Milton Friedman (1962) had come up with the shareholder theory, according to which the sole purpose of a corporation is to maximize, and deliver profits to its shareholders. He considered social responsibility as pure philanthropy, instead of seeing it as a positive contributor to the company valuation.

After the publication of Our Common Future in 1987, sustainable development became a widely recognized concept among the scholars studying the characteristics of corporate responsibility. Influenced by Morrell Healed in 1998, John Elkington came up with a way to divide the concept of corporate social responsibility into three separate sections. In his book "Cannibals with forks: The triple bottom line of 21st century business", he presented what is today recognized as the triple bottom line approach (TBL). In the 21st century, triple bottom line has acted as a base for the modern day CSR. The approach recognizes that companies should not just have financial goals, but environmental and social ones as well (Elkington 1998). Additionally, Elkington investigated the bottom line question of for what purposes do the corporations exist. Within the TBL, corporate responsibilities are recognized to have three aspects: economical, environmental, and social. Using the triple bottom line as a base, further development in the 21st century has included the rise of stakeholder theory, and the theory of shared value creation (Porter & Kramer 2011, Center for Ethical Business Culture 2015).

2.3 The Role of CSR In The 21st Century

Today, the companies approach corporate social responsibility through the triple bottom line (KPMG 2015a). Triple bottom line includes the three different aspects of CSR: the economic, the environmental and the social aspects. These three perspectives are described in **Figure 1**. The economic responsibility refers to the company's responsibility to create economic value to its shareholders in the form of profits, to deliver financial income to its employees in the form of wages and salaries, and to economically contribute to the surrounding society in the form of taxation (Elkington 1998, Coffman & Umemoto 2010).

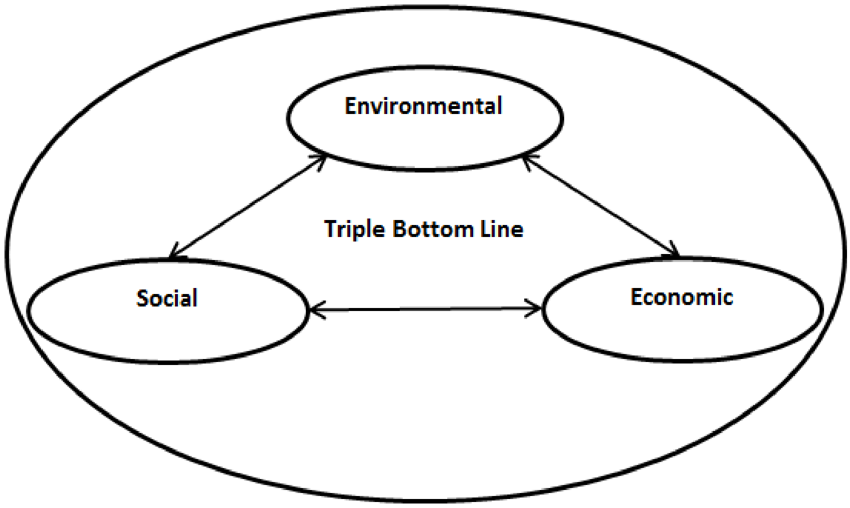

Figure 1 Triple bottom line

Environmental responsibility refers to the company's responsibility towards the natural environment, including flora and fauna. Environmental responsibility does not only account for the immediate and direct impacts, but also the entire lifecycle of the product or service produced including its material flows. Resource efficiency, energy efficiency and land use are examples of the issues that relate to environmental responsibility (Coffman & Umemoto 2010, Elkington 1998, Jepson 2003, Perez 2015).

The corporation's impact on its surrounding community and its employees is referred to as the company's social responsibility aspect. Social responsibility deals with issues related to health and safety, employee diversity and equality, training of employees, board structure, and discrimination. Philanthropy in the form of donations and volunteerism are also understood as contributions to social responsibility (Elkington 1998, Coffman & Umemoto 2010).

Some organizations such as Robeco Sam and Dow Jones have started to lobby the exchange of the term CSR to corporate sustainability, in order to reflect better the long-term visioning behind the concept of business sustainability (Robeco Sam 2016). Yet, by 2016, the latest theoretical development in the field of CSR has been the change of focus from the concept of CSR to the theory of creating shared value (CSV), which was first introduced by Porter & Kramer in 2011. CSV refers to the integration of business' societal issues into economic value creation through the redefinition of the corporation's value chain. According to the theory, this is done by accounting for the social dimensions of business in the company's value proposition (Porter & Kramer 2011). The idea requires a rethinking of how productivity inside a company is defined. It describes, how by adding the societal value to the economic value, the sum inevitably leads to a higher total value, than what would have resulted if only the economic value had been accounted for. Porter & Kramer (2011) argued that there was still a significant amount of unmet need among both the developing nations and other disadvantaged societies. However, in order to meet the unmet demand, the common understanding of supply had to be rethought through leading to the strategic advantages for some of the companies. Last, the theory recognized that a company was fully dependent on the local communities among which it operated. Once the corporation had established its premises to a certain location, a mutually beneficial innovation cluster for the community and the corporation had also born.

2.4 The Criticism

It is important to emphasize that there exist multiple definitions for corporate social responsibility. Additionally, there are no clear definitions on what issues should each of the triple bottom line branch include. The mixed definitions have led to criticism among scholars, who say that the lack of coherency makes comparing the different CSR performances extremely difficult (Coffman & Umemoto 2010). The amount of different third party CSR certifications has increased significantly and the motivation behind both conducting and reporting CSR vary both on industry and company basis (Elving et al. 2015). Trying to match the expectations set by different stakeholders has turned out to be extremely resource intensive. Because of this, some companies consider it easier to just follow third party issued certifications and guidance, instead of conducting a throughout analysis on their operations. However, relying purely on third party certifications and assurances only rarely seems to translate to an excellent level of CSR (Elving et al. 2015). The fundamental motivations behind CSR vary, and some companies have been shown to only use CSR with purely reputational intentions (Juholin 2004, Moser & Martin 2012). Yet, behind the concept of CSR, there lies a gained understanding on the business' impacts on all stakeholders and the surrounding environment. Therefore, in efficient CSR, corporate actions should speak louder than words.

2.5 Corporate Social Responsibility Reporting

The concept of CSR has gained a significant need for recognition in recent times in the corporate world due to the external pressures applied from various primary (investors, customers) and secondary (media, distributors) stakeholders (Gray et al. 1995, Mathews 2004). It is because of this that companies need means of integration as a part of their business model. One way, through which the companies are able to present their sustainability activities, is through a sustainability report demonstrating the various CSR activities that have been carried out during the past financial year (Nielsen & Thomsen 2007, Steel & Lock 2013).

CSR reporting refers to the disclosure of such non-financial information, which includes data related to the corporation's environmental, societal, corporate governance and produced economic benefit performance. Reporting can take place either annually, or between the frequencies defined by the corporation's CSR policy. Depending on the chosen strategy, both the extent of and the method of reporting can commonly be freely chosen inside the company. However, if the law sets the reporting requirement, this legislation then guides both the method and the frequency of reporting (KPMG 2015a). The board of directors plays a crucial role in setting an efficient CSR strategy, where the executive directors are held responsible for its tactical level execution. This strategy further defines the type of information that will be disclosed, and how often should this be done (KPMG 2011, KPMG 2013, KPMG 2015a).

In Europe, reporting on CSR is becoming more and more popular. However, the recent increase in popularity can partially be explained by the European Union's Directive 2016/95/EU, which obliges those companies that operate within the member states, and who employ more than 500 employees to report on their CSR issues on a systematic basis (European Commission 2016a). However, the directive is flexible and it leaves the companies with a wide set of tactical choices regarding the execution practicalities. The member countries have until December 2016 to integrate the directive to their local legislations (European Commission 2016a, KPMG 2016a). According to KPMG (2016a), one of the main drivers behind the global increase in the number of CSR reports has been the increasing normative nature of reporting caused by the tightening legislations. These findings are coherent with the current situation in Europe, and reflect the Union's regulatory development.

During 2000's, CSR reporting has been criticized because of its lack of consistency, credibility and relevance. The published reports are not always comparable and in some cases, their emphasis is only on the issues that may reflect positive CSR performance, disregarding entirely the company's negative CSR performance (Husillos et al. 2011). Some academics in the field of social accounting have criticized sustainability reporting further, and raised the question whether some companies are using the reporting as a pure marketing tool, or if the reports really help in contributing to the current challenges in the field of sustainable development (Gray 2010, Milne & Gray 2013).

There are many ways to communicate CSR related issues to stakeholders (KPMG, 2015a). In this research, I only concentrate on analyzing the reports, and I do not cover other, such as continuous form of reporting. Considering the stakeholders, I only examine the European financial institutions as my target group and their positioning considering the legitimacy theory, stakeholder theory and shareholder theory.

2.5.1 Standalone Sustainability Reports

Companies can report on their CSR related issues through an integrated report as a part of an annual review, through a separate report, or additionally via predefined guidelines such as the Global Reporting Initiative. In the early years of CSR reporting, corporations used to disclose only information related to their social and environmental performance (Buhr 2002, Cho et al. 2015). This was conducted unsystematically, and the information was often scattered inside the published annual reports. However, since the 1990's, the development in the field of CSR reporting has been vast and today the corporation's sustainability performance is commonly disclosed in a separate CSR report, where the scope of information has widened to cover the environmental, social, governance and economic benefit related information (Cho et al. 2011). Reporting by using a separate sustainability report has been found to reflect a deeper commitment to CSR, than what would have been achieved by integrating CSR disclosures to the published annual report. Also, this has been recognized to reflect a deeper commitment to overall business sustainability (Gray & Herremans 2011). Other studies state that the separated reports can provide the investors with valuable information considering both the business' sustainability and the risks related to the firm's CSR performance (Dhaliwal et al. 2014).

Additionally, those companies that report by using a separate sustainability report, have been shown to disclose more information compared to their peers who reported their CSR through an integrated reporting method (Mahoney et al., 2013). However, according to the social accounting literature, the increased quantity has not translated into an increased quality, and reporting more information has been found to distract the targeted audience. Reporting more has therefore actually decreased the comprehensibility of the reports (Merkl-Davies & Brennan 2007, Unerman et al. 2007). Another target for criticism has been the completeness of the separate sustainability reports and the question whether they actually achieve their target of increasing transparency and accountability of the company, or are they rather being used in reputational management (Cooper & Owen 2007, Gray et al. 1988, Moneva et al. 2006, Tinker et al. 1991).

2.5.2 Global Reporting Initiative

According to the Amsterdam based Global Reporting Initiative (2016) the purpose of the GRI framework is to help corporations to communicate the most essential sustainability matters to different stakeholder groups. It has been the leading reporting standard since the late 1990's, and it currently is the most widely used reporting framework in the world (Bebbington et al. 2012, Global Reporting 2016a, Gray 2010, Mahoney et al. 2013). The GRI is based on continuous development, and once the previous version gets updated, it will be offset by the updated version. At this moment, the newest version of the GRI guidelines is the G4 framework. The GRI consists of three disclosures including the environmental, economic and societal part. Social responsibility is further divided into subsections, which are the labor practices, human rights, society and the product responsibility. The core idea of GRI is to recognize the core sustainability challenges that relate to one's business, then have an efficient CSR strategy to tackle these issues, and last, report the progress through the framework's indicators. Reporting according to the GRI framework requires a lot of information, however because of the coherency of this information, the GRI has become one of the most common tools that are used when a need to compare between two companies' sustainability performance emerges (Global Reporting 2016a).

Some scholars argue that those companies that report according to the GRI guidelines show more commitment towards sustainability and CSR reporting, compared to the companies that do not follow the guidelines (Michelon et al. 2015). Even though the GRI is a widely accepted tool and the reports often third party verified, the information disclosed through the GRI has been found out to be of no better quality than the information in either integrated or in separate sustainability reports (De Villers & Alexander 2014, Michelon et al. 2015). The GRI reports are significant in their coverage, and the large amount of disclosed information causes challenges among stakeholders, because analyzing the vast amount of information also requires significant resources (Michelon et al. 2015). This is coherent with the findings by Merkl-Davies & Brennan (2007) and Unerman et al. (2007), who argued that disclosing more information in a stand-alone sustainability report might actually decrease the quality of the report.

However, the quality of data disclosed in the GRI reports has been recognized to be partially insufficient raising therefore skepticism about the validity of the framework. The criticism was enforced further by the studies, which proved that some companies had used the GRI disclosures only as a tool to manage the corporation's public image (Cho et al. 2012, Hopwood 2009, Merkl-Davies & Brennan 2007, Moneva et al. 2006). Despite these negative findings, Berhelot et al. (2012) and Schadewitz & Niskala (2010) discovered that those companies, who had voluntarily reported on their sustainability through the GRI guidelines, enjoyed a higher corporate valuation. Michelon et al. (2015) agreed on the positive impacts of the GRI by stating that once combined with a voluntary based information disclosure, reporting through the GRI guidelines actually correlates positively with the reporting quality. All in all, it is extremely challenging to find a common ground considering the status of the GRI. It appears that the framework offers both positive implications such as a decreased cost of capital and an appreciated market value, even though in the worst case it can be exploited and used as a pure marketing tool.

2.5.3 The Motivation Behind Sustainability Reporting

The existence of vast amount of published CSR reports reflects the fact that the benefits gained from the CSR reports must exceed the negative benefits (costs) of the report production process (Thorne et al. 2014). Approaching this through stakeholder theory, the reason why the reports exist would be because of the clear demand set by the most important stakeholders of the company (Freeman 1984). The shareholder theory, however, explains that the rising interest towards the CSR disclosures has to because of the publications' ability to boost the company's valuation (Friedman 1962). The third view is offered by the legitimacy theory, according to which the companies are continuously looking for legitimacy in their operational environment. To elaborate further, the existence of environmental and social disclosures can be explained by the demand for such disclosures set by the company's operative environment. In respect to this, the CSR reporting is conducted in order to achieve, or maintain the company's legitimacy to operate (Suchman 1995).

According to academics, the reasons behind publishing CSR disclosures are mixed (Thorne et al. 2014). Companies may offer voluntary based disclosures in order to open up their environmental and social performance to a varying set of stakeholders (Clarkson et al. 2011), or to serve the strong stakeholder's interest (Gray et al. 1996). Some have noticed that those companies, who manage their sustainability well, are keener on publishing CSR disclosures than the companies who manage their CSR inefficiently (Li et al. 1997, Bewley & Li 2000). Also, a decrease of external costs and the unwanted pressure from stakeholders have been found out to impact the motivation to publish the disclosures (Tate et a. 2010, Caron & Turcotte 2009; Adams 2002). In the worst-case scenario the CSR publications can be used in manipulating the perception of a designated target group, as had been discovered by Patten & Guidry (2010) and Deegan (2002). Gray (2010) and Milne & Gray (2013) enforced the negative criticism by discovering that some companies use CSR reporting only as a marketing tool, with no purpose to contribute to sustainable development.

Even though the criticism towards the credibility of CSR disclosures has been vast (Husillos et al. 2011), there also exists the companies whose well-managed CSR reporting has rewarded them with a decreased cost of capital, increased market valuation and easier access to capital (Schadewitz & Niskala 2010, Michelon et al. 2015). Therefore, a generalization where the companies only use CSR reporting as a tool to manage their reputation or where the disclosures only speak honestly about the firm's environmental and social activities cannot be made.

2.6 The Underlying Theories

To explain the managerial behavior and why a majority of companies have decided to disclose CSR related information could be explained through a varying set of theories. In this chapter, I examine the stakeholder theory, shareholder theory and the legitimacy theory. Through these, I examine the underlying incentive behind voluntary-based social and environmental disclosures. Table 1 shortly summarizes the theories in the end of the chapter.

2.6.1 Stakeholder Theory

Stakeholder theory is a management theory, which was first introduced by Freeman (1984), and later discussed by a number of different scholars including Clarkson (1994), Mitchell et al. (1997), Rowley (1997) and Frooman (1999). It has been influenced by a varying set of theories from the fields of sociology, economics, politics and ethics (Mainarders et al. 2011). Freeman (1984) wanted to describe the relationship between the companies and their surrounding environment. His theory recognizes that a corporation operates in a multilateral environment and that it is in a continuous interaction with different actors called stakeholders.

The theory has only been around for three decades, and many have criticized it as incomplete (Fassin 2008, Mainarders et al. 2011). The criticism has been shown especially towards the scope of the theory, including the low level of theoretical integration between the three different dimensions, including the normative, instrumental and descriptive aspects (Le´pineux 2005, Mainarders et al. 2011). However, it is currently one of the most viable theories that can be applied to explain the managerial behavior (Laan 2009).

The starting point for the stakeholder theory is the recognition of an existing relationship between the corporation and the different groups who may influence, or be influenced by the company's actions (Jones & Wicks 1999, Savage et al. 2004). These recognized relationships are then prioritized according to stakeholder salience. The role of stakeholder salience in defining the important stakeholders is significant, because it first helps the company in gaining an understanding on different stakeholder groups, and then in prioritizing their needs accordingly. Stakeholder salience categorizes different companies based on their power, urgency and legitimacy. These three characteristics and their different combinations form different stakeholder categories. A high level of all three often relates to the companies' core stakeholders, who for firms are the most important stakeholder groups. Their requests for information should therefore be filled before other groups. Overall, all of the recognized relationships are prioritized, then managed and last reflected to the goals and processes of the company (Mitchell et al. 1997).

The interests of the legitimate stakeholders are understood to possess intrinsic value and should be understood as equally important (Clarkson 1995, Donaldson & Preston 1995). The theory can be used in explaining the behavior of corporate management and its decision-making, and the reason why certain groups aim to influence the corporation's management (Mainarders et al. 2011).

However, stakeholder theory should not be understood as a standalone theory, but rather as a set of different theories. It can be divided three different segments including the descriptive, instrumental, and the normative aspect

(Donaldson & Preston 1995). The descriptive aspect describes the way the companies run their operations in relation to their stakeholders and the stakeholder management processes. Further on, the instrumental aspect illustrates how the organization can achieve its company-level objectives through efficient stakeholder management and last, the normative approach focuses on studying the optimal way through which the companies should conduct their operations in relation to their moral principles (Friedman & Miles 2006).

In Freeman's (1984) stakeholder theory, the companies were understood to be fully dependent on those external groups whom they interacted with. Between the companies and the groups, the relationship was understood to be mutually beneficial. However, the relationship, which was later referred to as resource dependency by Frooman (1999), had already been presented before by Pfeffer & Salancik in 1978. Still, these groups were not recognized as stakeholders until the publications of Freeman (1984). In both the academic and the business context, the definition of a stakeholder has taken several forms, and it has been used widely with varying meanings (Mainarders et al. 2011). When the works of Bryson (2004), Buchholz & Rosenthal (2005), Pesqueux & Damak-Ayadi (2005), Friedman and Miles (2006) and Beach (2008) were accounted for, there were a total amount of 66 different definitions for the concept stakeholder. Among the academics, there clearly exists no consensus on how the concept should either be understood, or used.

Clarkson (1995) recognized three main factors behind the concept stakeholder: the corporation, other actors and the relationship between these two. In spite of the fact that his definition has gained wide recognition, not all academics agreed. For example, Mitchell et al. (1997) stated that the relationships were way more complicated and their dynamics could not be explained through such a simplified framework. Despite the criticism towards the broadness of Freeman's (1984) definition, it has been accepted broadly and is still widely in use (Mainarders et al. 2011).

In stakeholder theory, the company categorizes the actors with similar interests, or rights in order to form different entities, called the stakeholder groups. The needs of these actors then prioritized according to stakeholder salience, which groups the stakeholders according to their power, urgency and legitimacy. However, before the categorization can take place, a careful stakeholder analysis is required so that those stakeholders who are entitled to the primary information through their high level of legitimacy, urgency and power are recognized (Gray 2001, Mainarders et al. 2011). The prioritization is conducted by first gaining an understanding on why these stakeholder groups show demand for a certain type of information, and second why their needs should be met before others (Mainarders et al. 2011). Considering the motivation behind the company's' CSR reporting, prioritizing the needs of different stakeholders is especially important, because the company has to make trade-offs between the stakeholders it considers important, and the stakeholders that are considered less so. Overall, the companies do not have enough resources to provide every stakeholder with all the information they may request, and therefore the importance of stakeholder is what plays a crucial role when the company's management makes decisions on who to report to and what to report on (Aaltonen et al. 2008, Laan 2009, Mitchell et al. 1997).

After the stakeholder analysis, the recognized stakeholders can be divided into two groups: the primary and secondary stakeholders. Primary stakeholders hold a formal relationship with the company, which is often related to a contract, and their interests are treated as the most important. Examples of such actors are the clients, employees, shareholders and credit institutions. The secondary stakeholders lack the contractual relationship, and can represent the government, local community or an NGO (Clarkson 1995, Mainarders et al. 2011)

Further down, the creation of the stakeholder theory has caused the creation of the concept stakeholder management, which refers to the company's intention to both manage and prioritize the relationship between different stakeholders and their needs, including the needs for social disclosures (Clarkson 1995, Donaldson & Preston 1995, Scott & Lane 2000, Baldwin 2002). Stakeholder management takes place through three levels: the recognition of stakeholders, developing and implementing a varying scale of processes in order to manage the stakeholders' needs and building the relationships according to the corporate strategy (Clarkson 1995).

To conclude, according to the stakeholder theory, the reason why companies publish social and environmental disclosures is because of the risen demand from those stakeholders, who are ranked high through the stakeholder salience.

2.6.2 Shareholder Theory

According to Friedman's shareholder theory (1962), the primary purpose of a company is to maximize the wealth of its shareholders. The shareholders provide the company with capital, which can then further be utilized with a purpose of creating as much value to the shareholders as possible. In other words, the managers of the company should only target at such projects and initiatives, which maximize the value of the shareholders, and which have a positive net impact on the company's valuation. However, it is important to recognize that the managers do not pose the control over either of the variables, and that the managers can only influence the tools such as the revenue, profitability of the company, return on capital, return on assets, return on equity, growth, and the cost of capital, which have an indirect impact on the company's future cash flows, and therefore the value of the company (Tse 2011, Friedman 1962).

The interests of managers and shareholders are not always equal, and this has led to the rise of agency theory, which investigates the interest differences between the people who may pose interest towards a same asset (Tse 2011). Within agency theory, the interest difference is commonly recognized as the principal-agent problem. In order to tackle this problem, the interests of both the managers and shareholders should be aligned in the form of such incentives, bonus systems and result monitoring systems, which would encourage the managers to thrive for similar goals to those of shareholders'. Yet, implementing these incentives requires resources, which often come from the shareholders. The born resource costs are called the agency costs and are extremely important in minimizing the possible interest differences there may exist (Jensen & Meckling 1976, Tse 2011).

The shareholder theory states that the actions of the corporate managers should always target at maximizing the share value. However, the maximization does not necessarily mean increasing the corporate valuation through rising the share price, but it can mean decreasing the costs of the corporation and therefore increasing the profitability of the company, which then translates to an increased valuation. In respect of shareholder theory, the managers should only publish social and environmental disclosures, if by publishing them a positive net value can be created, and wealth of the shareholders can be increased (Friedman 1962). In this field, research has already been conducted and the scholars have widely accepted the fact that by publishing social and environmental disclosures, the company can have its share price positively affected (Campbell et al. 2001, Bloomfield 2002, Reimsbach & Hahn 2013, Reverte 2012, Schadewitz & Niskala 2010). However, as Banyan (2011) points out, this is not a generalizable phenomenon and for example in Asia the CSR reports have been shown to only have little, or no positive impact at all to the company's valuation among Asian shareholders. However, explaining the disclosures from the perspective of shareholder theory, the existence and the generally accepted status of CSR among the shareholders reflects their characteristic as a value adding publication.

2.6.3 Legitimacy Theory

Legitimacy theory aims at explaining the actions of a company relative to its surrounding environment. The surrounding system of norms, value, beliefs and definitions all have an impact on the business operations, and these characteristics can be used in explaining the actions of corporations. The company is constantly looking for an approval to exist and in order to achieve this, its behavior must follow the expectations set to it by the surrounding environment. These expectations are further defined by the value systems and by matching the value systems between the company and the operational environment, legitimacy can be achieved (Lindblom 1994). Legitimacy theory can be understood as an unofficial contract between the company and the society. Further down, the theory can be divided into two categories including the strategic and the institutional approach (Suchman 1995).

Achieving legitimacy is important, because this has a direct impact on business continuity and credibility. Continuity reflects the way the company's operations may proceed in the future without interruptions, and credibility the way different stakeholders consider the company and its operations. Gaining an understanding on the legitimacy of a company may allow the firm to discover new legitimacy strategies that can be applied inside the corporation (Suchman 1995).

Following the theory, the reason why companies publish social and environmental disclosures can be defined by the expectations set by the public. If these expectations are not met, the company may lose its unofficial license to operate as a part of society. A clear example of legitimacy requirement is the European Union, where the regulation to publish non-financial information related to business operations will have to be adapted to national legislations by the end of 2016 (European Commission 2016). In order to achieve legitimacy after the new regulation has been set to place, the companies will have to adapt their operations accordingly, or they might lose their legitimacy to operate in the European Union. Overall, the CSR disclosures can be used as a way of communicating the corporations' operational impacts to the public in order to maintain the operational legitimacy and transparency (Campbell 2003, Neu et al. 1998, Hendersson et al. 2004).

	Stakeholder theory	**Shareholder theory**	**Legitimacy theory**
CSR Disclosures exist because..	...the core stakeholders, who are defined through stakeholder salience, set a demand for their existence *(Freeman 1984)*	... they impact positively on the company valuation *(Friedman 1962)*	... their existence is required in order for the corporation to achieve legitimacy in its operational environment *(Suchman 1995)*

Table 1 Summary of the applied theories

3 THE INVESTMENT PROCESS

The traditional investment process can be divided into three sections. First, the individual asset managers, who act through the mandate given to them by their employer, are influenced by the norms inside the institution and society. This is the so-called pre-trade era, which sets the normative framework for the future investment decisions. Second, the analysis is conducted and third, the investment portfolio is managed accordingly. The purpose of the analysis is to seek out the information that is required in efficient investment decisions. During the management phase, the portfolio is monitored, its risk managed and the investor can potentially change their positioning if required by a possible change in the underlying investment mandate, or the need for re-evaluation of risk (CFA Institute 2015b)

3.1 The Institutional Investors

Investors can be understood as the primary use of the information published by companies (Chander 1994). Information related to environmental and social disclosures is no exception, and in order to make as efficient investment decisions as possible, the investors prefer to have as much relevant information on the potential investee as possible. According to the investors, the CSR disclosures can be understood to have intrinsic value, which further describes the company's credibility and willingness to disclose information (Berhelot et al. 2012). However, the most significant value provided by voluntary based CSR disclosures appears to be the decrease of information asymmetry among investors (Erragraguy & Revelli 2015, Hassel et al. 2005, Schadewitz & Niskala 2010). In the following chapter, I analyze the importance of investors as stakeholders through stakeholder salience, and then I describe the traditional investment process and how through taking advantage of CSR disclosures this process could be improved. Last, I present the commonly recognized responsible investment approaches and the challenges that the investors face when attempting to maximize the informative value of CSR disclosures.

3.2 Investors And Stakeholder Salience

Derived from the instrumental aspects of stakeholder theory, stakeholder salience examines the importance of different stakeholder groups through power, legitimacy and urgency (Aaltonen et al. 2008, Mitchell et al. 1997). Aaltonen et al. (2008) noted that the higher the level of power, legitimacy and urgency the more prioritized are the stakeholders in question. In other words, stakeholder salience explains to which needs of different stakeholders the managers should prioritize.

Considering the European institutional investors, a high level of all three: power, urgency and legitimacy is present. Following this, the institutional investors are recognized as the core stakeholders, who the company managers need to have a special focus on, and whose needs cannot be disregarded without a significant downside risk (Aaltonen et al. 2008, Mitchell et al. 1997). The institutional investors have a high level of power because of their capability to influence the company's cost of capital, valuation, ownership structure, board structure, and availability of capital (Campbell et al. 2001, Bloomfield 2002, Reimsbach & Hahn 2013). Disregarding the institutional investors' power may in the worst-case lead to an impossible operative environment.

The company's achieved level of legitimacy is defined by the shown level of appreciation considering the investors' point of views in the company's management decisions. In the case of institutional investors, the legitimacy requirements have to be taken seriously, for the institutional investors are commonly the biggest owners of public listed companies and have taken a well-calculated risk by investing their capital to these corporations. As an exchange for the risk, the investors expect a decent financial return. If the need for legitimacy is not respected, the investors may withdraw their funding, which might lead to significant increase in cost of capital (Bloomfield 2002).

The urgency of institutional investors' needs can be understood in two ways. First, the investors do not necessarily pose a high level of urgency in their demand for information, because the investment analysis often answers to the most crucial questions. Additionally, the investors are guaranteed with the most crucial information through the local legislations, which in the European Union state that the companies hold an obligation to inform their investors on those issues that may have an impact on the shares value. However, the high level of urgency may actually exist, but before the investors become stakeholders, during the so-called pre-investment era when the investment analysis is conducted. Still, when the institutional investors submit a request for information, it is often appropriate to fulfill the need with sufficient urgency. (Reverte 2012).

3.3 The Normative Framework

The European institutional investors operate in a complex normative environment. The legislation of the European Union and the local legislation in the country of domicile form the primary regulatory core of the normative framework. In order to support the investors in their regulatory questions, institutional organizations commonly have a compliance team, who are responsible for keeping up with the regulatory changes on both national and international level. The regulatory framework is followed by the organizational code of conduct, which consists of corporate social norms, rules, values, responsibilities and moral obligations set to the company's employees through their employment contract. The code of conduct, which commonly has to be accepted by the board of directors, overlaps with the regulatory framework, because the code of conduct can be understood as a way to communicate the regulatory framework to the investment institution's employees. In hierarchy, the personal and professional values are secondary to the organizational norms. The personal values should not be willingly applied to investment decisions, and because of this they are recognized as the indirect factors affecting the investment decisions (Barclays Live 2016, CFA Institute 2015b). The mandate to operate relies on these norms, and if the asset manager fails to respect either the regulation or the internal code of conduct, the mandate can be lost, and with it the license to operate in the financial markets.

3.4 The Investment Analysis

The institutional investors use a wide range of different sources of information when conducting their investment analysis. The most common sources are financial information system such as the Bloomberg Professional Services, or Thomson Reuters Eikon. Through these platforms, the investors can gather as much, and as in-depth data as their analysis requires (Bloomberg Professional Services, 2016). However, these are not the only sources of information and the investors also use supportive sources such as the Internet, other investors and analysts, traders and corporate managers. There exists no academic definition for an optimal investment process and therefore they may vary on an organizational basis. However, the literature from the Chartered Financial Analyst Institute can generally be understood as a valid source of reliable information considering investment analysis processes (CFA Institute 2015b).

The traditional investment analysis starts with the presentation of a potential investment case. The purpose of an investment bank is to act as a market maker for different financial instruments by balancing the capital flows in the financial markets, and it is common that these banks assist their institutional clients by inventing new investment ideas. However, the investment ideas can also rise from the investors themselves. There are three main asset classes including the real assets, fixed income and the equity assets (CFA Institute 2015b). The asset class defines the type for the information the investors are willing to use as part of their analyses. The equity investors do not look at the same things, as the fixed income investors do, because the characteristics of the assets differ. For example, in some fixed income assets, such as corporate bonds, a great focus is put on examining the liquidity, solvency and the overall creditworthiness of the company, instead of conducting a throughout analysis of the firm's business strategy and its performance compared to the rest of the industry (CFA Institute 2015b).

The academics have proven that in some companies, efficient CSR disclosures have decreased the cost of capital, which reflects the debt investors' preference to invest into those companies that have dealt with their social and environmental disclosures respectively (Schadewitz & Niskala 2010). Yet, according to the short preliminary interviews that were conducted before the research of this thesis was conducted, I found out that the CSR disclosures were mostly used in the analysis of fixed income and equity investments. Because of this, I decided to concentrate on analyzing the practices in both of the asset classes, yet having the main focus on equity investments, where the practical applications seemed to be the most sophisticated.

In equity investment, the analysis starts with an in-depth analysis of the chosen industry and the general business environment. However, a careful industry analysis is often conducted before the single company analysis. Through this, the investor can draw conclusions on the company's performance, business risks, strategic positioning and growth opportunities compared to its rivals. The overall analysis may include the screening of current business cycle, statistical similarities, the life cycle stage of the industry, industry concentration, industry pricing, its stability, capacity and its vulnerability to external influences such as government regulation. Gaining an industry-wide understanding of the analyzed business is important when the investment decisions are made. If the investor does not understand the industry's business model, investing capital does not make sense (CFA Institute 2015b).

After the industry analysis, the company analysis has five main targets: to gain an overall picture of the company, to understand the company's activities relative to its industry, to analyze both the supply and demand, to examine the pricing of the products and to conduct a financial analysis. The first stage for the investor is to analyze the chosen company in a more detailed manner in order to gain an overall picture of the company. This includes identifying the most important products and services, positioning in the industry, sources of revenue, product life-cycle stage, capital expenditures, corporate governance, R&D strategy, management characteristics, management commitment, and the legal profile of the company (CFA Institute 2015b). When the answers to these questions have been revealed, the investor can move on to comparing the gathered information to the industry characteristics. The industry characteristics are important, because the investors can for example benchmark the company's technological development, brand loyalty, supplier concentration, government regulation, labor relations and other industry related challenges to its peers. This offers the investor a good opportunity to choose from the best performers in an industry (CFA Institute 2015b).

If the company profile and industry analysis do not provide the investors with negative surprises, the next thing is to analyze the product demand and supply. The investor looks answers for questions such as where does the product demand come from and how far are the products differentiated. Additionally, they are interested in the sensitivities and correlations between such demographic, social and economic changes that might in the future have a significant impact on the product demand. The gathered information can then be used in creating possible scenarios for the product demand in the future, including both short and long term foresight. Considering the supply, the investment analysis includes information related to market concentration, competition and substitutes. The production capacity, product's cost structure and the potential procurement imports and exports are then considered. At this point, the investors have gained the knowledge on how the company and its products are positioned in the market, and how potentially profitable can the company's products be. The investor also understands the company's profitability logic, the competitive environment, corporate's strategy and has a view on the future of the most essential products (CFA Institute 2015b).

After this, the investors examine the product pricing and price elasticity of demand. They examine how have the historical pricing changes influenced the demand, and how have the variations in raw material prices impacted the corporate costs in the past. The investors then use the historical data series in order to predict the future pricing scenarios through sensitivity analysis. Other factors such as the cost and availability of skilled labor are also of great interest to investors, for these help the investors in gaining an understanding on the production continuity (CFA Institute 2015b).

Last, the investor gathers a set of financial data, which includes five different types of ratios. These are the activity, liquidity, solvency, profitability and financial statistics ratios. The required data are often gathered from the company's historical balance sheets and income statements, which have been gathered to a financial system such as the Bloomberg Professional Services platform. Activity ratios describe the company's capability to efficiently collect receivables and manage its inventory. As an example, the investor can use ratios such as days of sales outstanding (DSO) and days of payables outstanding (DPO). Liquidity ratios measure the company's ability to meet its short-term financial obligations, and this can be measured through current ratio, quick ratio and cash ratio. In order to measure the company's long-term capabilities to meet its financial obligations, solvency ratios are used. The ratios include net debt to EBITDA, debt to capital, debt to assets, cash flow to debt, interest coverage ratio, financial leverage ratio, off-balance-sheet liabilities and contingent liabilities. Solvency ratio is of special focus to fixed income investors, who are interested in the company's capability to pay back their debt in full and during maturity (CFA Institute 2015b).

The profitability ratios measure the company's ability to generate profit from its sales and resources and they are measured through gross profit margin, operating profit margin, pretax profit margin, net profit margin, return on invested capital (ROIC), return on assets (ROA), and return on equity (ROE). Last, the investors can utilize financial statistics ratios including growth rate of net sales, EBITDA, net income, growth rate of gross profit, earning per share, operating cash flow per share, expected rate of return on retained cash flow and dividend payout ratio (CFA Institute 2015b).

Other important factors influencing the investor's view on the company are the macroeconomic conditions such as inflation, interest rates, local gross domestic product growth, employment and financial markets in general. Once both the industry analysis and the company analysis have been completed, this may lead to a trade execution, which is further influenced by the trading commissions, trading systems and trade size. The presented ratios and the analysis process should not be treated as absolute, because the investment processes vary depending on the organization and the personnel of the investment company. Riskier assets should always be examined more carefully, so that the investor understands both the real nature of the risk, and its true extent (CFA Institute 2015b).

3.5 Investment Management And Monitoring

Finishing the analysis and executing the trade do not reflect an end to the investor's responsibilities. After the trade, the investors have to actively manage both their position and the risks related to it. This is done on a single trade's level, and as part of a bigger portfolio. The importance of a single trade is defined by the trade size and the amount of risk it poses. The risk can efficiently be management through risk indicators such as duration, delta, vega, theta, rho, lambda, gamma, interest rate sensitivity, the capital asset pricing model, and value at risk (VaR). Through these variables, the investor can decide to optimize the size of the trade, or hedge his exposure via other instruments such as derivatives. The conducted analysis acts dynamically with the monitoring phase of the process, and most of the financial ratios that are used in company analysis, are also applied in continuous investment management and monitoring. (CFA Institute 2015b). **Figure 2** summarizes the entire investment process.

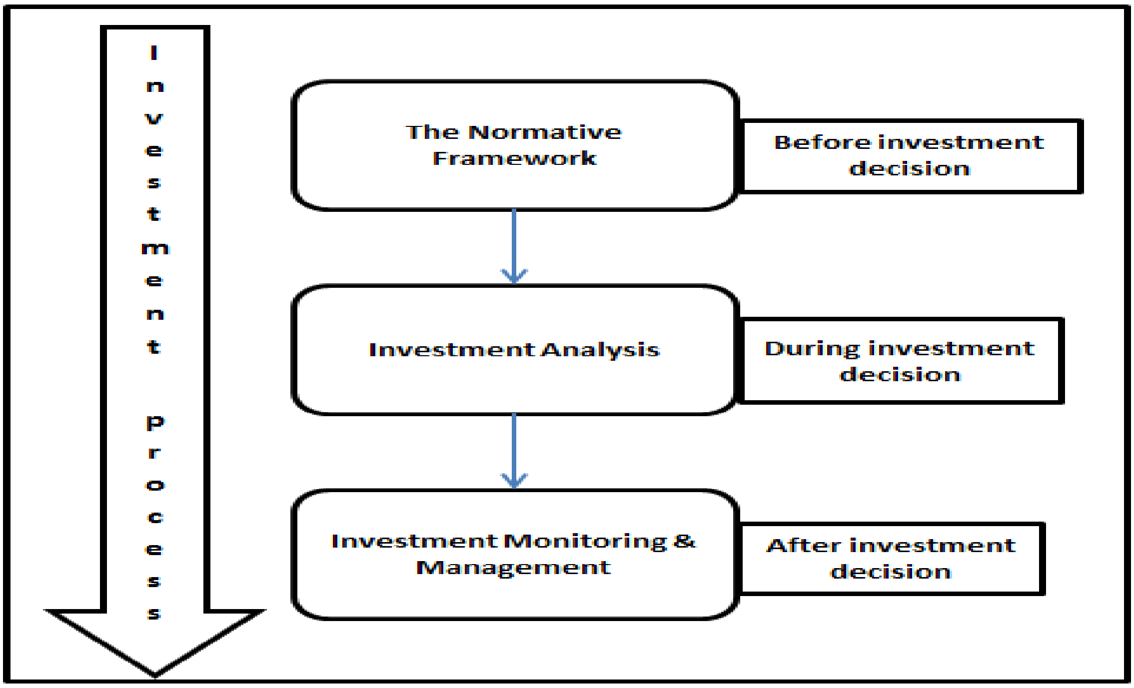

Figure 2 The investment process

3.6 Responsible Investment

The rise in the amount of investors conducting responsible investment in the 21st century has been significant. Responsible investment can be understood as the investor's response to growing concern on the materiality of environmental, social and governance (ESG) factors. Environmental factors include issues related to greenhouse gas emissions, environmental degradation, waste and pollution, climate change and deforestation, when the social aspect covers labor conditions, local communities, health and safety and employee relations. The governance analysis focuses on board diversity and structure, tax strategy, executive pay, bribery and corruption. The investors, who conduct their investment operations through responsible investment, can analyze companies through an ESG analysis. This means that the investors incorporate the ESG factors into their traditional investment analyses. ESG investing does not necessarily mean excluding those companies that have been shown not to act responsibly from the investor's investment universe. The main point of responsible investment is to recognize the risks related to the poor ESG performance in order to manage them accordingly. Additionally, in responsible investment, the investor should practice active ownership and use the formal rights granted to the institution through the corporate ownership. Officially, this means participating in active dialogue with the company's management and using the voting rights (UNPRI 2016a).

Responsible investment should not be mixed with other sustainable investment branches, such as socially responsible investment (SRI) or impact investment. In socially responsible investment the main focus is on using the predefined values or social criteria, when the investment targets are chosen. These criteria are then used as the main drivers, which can override even the investor's requirement for decent financial returns. In other words, the SRI's the main target is not to primarily maximize profitability, but to distribute capital according to certain ethical criteria (GIIN 2016). In impact investing, the investor aims at a certain type of social or environmental impact. As an example, the investor may target at increasing the social welfare among people who have recently lost jobs, or at improving environmental conditions in a certain area. The impact of the investment is treated as an equally important factor compared to the investment's financial returns (USSIF 2016). In responsible investment, the financial returns are the primary driver for investment, and the focus is more on understanding the ESG related risks rather than trying to avoid them (UNPRI 2016a). Responsible investment offers the investors new point of views on how to approach their traditional investment analyses through applying alternative ESG-related approaches to traditional investment strategies. These strategies include positive screening, negative screening, best-in-class approach, thematic investment and investment exclusion (Hyrske et al. 2012 p.63-78). In the next chapter, I examine these approaches more closely.

3.6.1 Responsible Investment Approaches

Responsible investment has risen in its popularity only during the recent decades. Next, I am going to examine the most common ways of integrating ESG factors into investment decisions. However, differing practices have been applied on institutional basis. After we have presented the commonly recognized approaches, I am going to present individual examples which have been applied in different organizations, and which have been implemented individually based on organizational definitions.

In responsible investment, in addition to traditional investment analysis, the companies are screened based on their ESG performance and the results of the screening are then applied to investment decisions. The responsible investment approaches are positive screening, negative screening, best-in-class investing, thematic investing and investment exclusion. As a part of the investment process, these approaches can be integrated as investment guiding factors to either the organization's normative framework, or the company analysis phase. However, investment exclusion is applicable to guide the investor through the normative framework integration. This means that the restrictions, on which type of companies can exist within the investor's investment horizon, are set as internal norms in the form of ownership policy, or organizational investment restrictions. For example, the policy can define that the investors are not able to invest into companies who participate in the manufacturing process of nuclear weapons (Hyrske et al. 2012 p. 69).

The other approaches can be utilized through investment analysis integration, which means that these are examined in the second phase of the investment process. In positive screening, the investor focuses on valuing certain type of companies over others. In the case of two potentially equal investments, the investor can for instance choose the company, which has decreased its CO2 emissions over the other. In negative screening, the investor can do the same, but decide which criteria to use in order to negatively screen certain type of companies. For example, the investor can use the greenhouse gas emissions as a factor affecting negatively to the company's valuation (Hyrske et al. 2012 p. 72-77).

The most common approach to responsible investment is the best-in-class approach. The approach focuses on discovering the best performers based on the investor's pre-defined criteria. The investee can, for example operate as the best company in its industry producing the most revenue with the least amount of water emissions. The focus can as well be on investing capital into companies who have achieved the most progress, or who have invested the most to technologies supporting sustainable development. This can be done either through individual companies, or then through sustainability indices, such as the Dow Jones Sustainability Index. These indices can also be used in investment benchmarking (Hyrske et al. 2012 p. 72-77, Landau 2016). Another way to approach responsible investment is through thematic investment, where the investor chooses certain themes, and invests to companies accordingly. In thematic investment, only the products and services of the companies are accounted for. The chosen themes can include anything from cleantech to sustainable farming practices, or the mitigation of climate change (Hyrske et al. 2012 p. 77). Table 2 summarizes the responsible investment approaches and gives further examples of how these can be applied to investment activities.

Responsible Investment Approaches	Application examples
Best in Class	Choosing the best sustainability performer in a certain sector
Positive Screening	Ceteris paribus, preferring to invest into a company with less CO2 emissions
Thematic investment	Investing into companies, which produce renewable energy
Investment Exclusion	Refusing to finance such countries which apply death penalty

Table 2 Responsible investment approaches according to Hyrske et al. 2012

In order to help the investors in the required analysis, there exist multiple third party companies who are willing to market their ESG analysis services. These analyses often focus on rating the companies based on their ESG performance. The ratings are similar to corporate credit ratings, and the investors can use them while for example defining the ESG rating based investment limit for each investable company (MSCI 2016). However, these services are often costly, and the smallest investors do not have the required resources to take advantage of the ratings. Yet, there are also less costly services, such as the ESG portal integrated to Bloomberg Financial Services Terminal, which includes all the basics that an investor might need in order to do a basic ESG analysis (Bloomberg Professional Services 2016).

In order to systematize the responsible investment activities, some investors have signed the Principles for Responsible Investment (PRI). PRI includes six principles, which praise collaboration, ESG analysis, performance reporting, requirement for relevant ESG disclosure and promotion of the principles among the industry. These United Nations backed principles gather the investors around the same table in order to tackle similar ESG related challenges. Through PRI, the companies are able to efficiently exchange information between each other, and use the institutional investors' power combined when engaging with the companies (UNPRI 2016b).

Considering the business world's applications related to responsible investment, I am going to examine three practical examples including the examples from GESD Capital Partners (GESD), GrowthWorks and Landmark Growth Capital Partners. GESD Capital Partners was a fund with over 250 million USD in assets under management. GESD had a history of investing to employee friendly corporations through the best in class approach. However, this time they invested to Golden Country Foods Inc, which had been known for its unorganized labor and poor working conditions. GESD conducted an in-depth analysis, which revealed that one of the main reasons why the company had failed to succeed had actually been the poor labor conditions. GESD purchased hundred percentages of Golden Country Foods Inc's outstanding shares, and soon after, they then re-arranged the employee working contracts in order to reflect the contract terms of a best in class company. As an example, these new contracts included both a cross training of the employees and the creation of such incentives, which motivated the workforce to continuously improve their daily work, including the possibility of a direct ownership over the company. Overall, this led to a revenue growth of approximately forty percentages within the first eight years (Croft 2009 p. 99-103).

Alternatively, GrowthWorks was a fund with over 900 million USD in assets under management, with a specialization in those companies, which produced responsible alternatives for currently used products. Their biggest investments were done into the field of renewable energy, and more precisely into those companies, who produced different parts for renewable energy plants, such as fuel cells, wind inverters and cell-powered batteries for lift trucks. In their general operations, they had chosen to concentrate only on those investments, which could be considered to affect the environment positively (Croft 2009 p. 104-108).

Last, Landmark Growth Capital Partners was a small fund, with only a bit over 75 million USD in assets under management. Because of their size, they focused on investing into small companies with significant growth potential. In their investment operations, they have decided to apply a various set of different responsible investment approaches, but one of their best investments so far, has been into sports helmet manufacturer Cascade. The investment was scoped down through thematic investment approach, where the Landmark Growth Capital Partners had decided to invest into technologies, which would make dangerous sports such as rugby, American football and lacrosse less dangerous for the athletes. They went through a whole set of relevant companies, finally ending up with Cascade, who was manufacturing helmets, which applied a lateral displacement technology. This technology protected the athletes twice better than what the commonly worn helmets did. Soon after purchasing one hundred percentages of the company's outstanding shares, they managed to sign a contract with NCAA and triple their revenue (Croft 2009 p. 114-120).

3.6.2 Shareholder Activism

Shareholder activism reflects the investor's use of power in order to impact on corporate behavior. The most commonly recognized form of shareholder activism is the use of investor's formal rights, such as the voting rights (Sullivan & Mackenzie 2006 pp. 155-158). Butler & Lee (2004) continues by stating that efficient shareholder activism goes actually way beyond the voting rights and includes approaches such as supporting the government in respect of governance, incorporating governance analyses into investment analysis, encouraging buy-side research, submitting skillful nominees for the board, teaming up with other investors, making public statements, using statements to guide the corporate behavior and taking necessary legal actions in the case of possible illegal activities. This was agreed by Sullivan & Mackenzie (2006), who then scope down to the most common forms of shareholder activism being the stakeholder dialogue, the use of formal rights, collaboration with other investors, benchmarking, media communications, and the ability to influence the share price through financial market trading.

Commonly, different corporations are willing to meet their most significant owners in one-to-one meetings, where the investors are able to ask questions, which could not necessarily be asked in annual corporate meetings. These meetings can be used as an excellent arena for stakeholder dialogue (Sullivan & Mackenzie 2006 p. 150-155). However, in the annual meetings, the investors are able to use their voting rights, which acts as a formal way of expressing the investor's will. Yet, the investors often inform the corporations beforehand on how are they going to vote, especially if they are going to vote against the consensus (Sullivan & Mackenzie 2006; Landau 2016).

The collaboration between institutional investors often takes place through different programs, such as the Carbon Disclosure Project and the Institutional Investor's Group on Climate Change. For investors, these are used as platforms, through which the investors able to communicate with other financial institutions with similar interests. Dialogue is not important just because of communication, but also because by combining the share ownership percentages, the investors together can in best cases own over fifty percentages of the given company's outstanding shares. This situation offers the investors a significant leverage, which can be escalated to the use of formal rights in order to influence the company. Through this, the board structure can as well be altered in case of mistrust. (Sullivan & Mackenzie 2006 p.156-158).

The use of benchmark can be applied in order to encourage the companies to perform efficiently in the terms of CSR when compared to their peers. Through this, pressure can be applied in order to encourage the companies to improve their sustainability efficiency. The use of media has also risen in its popularity, as was explained by Landau (2016), who told me that their company commonly made statements regarding their business sustainability partially because they wanted to influence both the company in question, and other companies. She continued by saying that media was therefore used as an indirect communication tool, which also had a purpose of publicly expressing the investor's will.

The last form of corporate activism was the trading of target company's financial instruments. A high cost of capital was often related to a lack of trust towards the company management, and the ownership of company's assets reflected a positive trust relationship between the investor and the company's management (Landau 2016). Similar results had been discovered by Feng et al. (2015) and Bloomfield (2002), who had earlier found out that those companies, who reported on their CSR well, enjoyed a decrease in their cost of capital.

3.6.3 Challenges

Responsible investment has been criticized for many different reasons. Excluding certain type of investments based on their industry, for example, has been criticized to limit the investment horizon. Further on, this has been argued to increase the portfolio risk, and therefore conducting such investment exclusion would be highly against the modern portfolio theory. Others say that the exclusion of investments might lead to a bubble, where the investors are all forced to invest into same kind of companies leading to an artificial rise in market prices. The core of responsible investing lies in both active ownership and company engagement, and this is why some investors do not agree with the exclusion approach. According to these investors, a responsible investor should always prefer engagement to exclusion (Hyrske et al. p. 146-155).

The challenges do not only focus on the approaches, but they go deeper into the investment organization. The investors often manage billions of euros in assets, and within a single investor, there may work dozens of portfolio managers. All of them have their own risk mandate and portfolio. Some asset managers have admitted to lack the required understanding on how the analysis should be conducted in practice. It is extremely challenging to monitor that the ESG analysis is really conducted according to the investment organization's policies. Among asset managers, some resistance against the general ideology behind ESG analysis has also been shown. Another argument has been about the double pricing of environmentally related risks, because most of the fixed income investors use the credit rating as a solid basis in their investment decisions. However, because the credit ratings agencies are not transparent on the background information related to their ratings, there exists a possibility, where certain type of company risk is double priced in the investment analysis (Hyrske et al. 146-155)

There are companies who have taken advantage of the concept of responsible investment by picturing themselves to the public as responsible investors only in order to manage their public image. There are also companies, who only disclose a limited amount of information, through which the entire truth about the investment positions inside the investment organization cannot be revealed. Through this, the investors are able to use financial instruments such as derivatives in order to mimic positions, which would not be allowed otherwise. Therefore, there clearly exists a possibility to abuse responsible investment by manipulating its characteristics, and by cherry picking only the benefits of the responsible investment approach. Still, its popularity in the 21st century has increased significantly and it is one of the best ways for the investors to incorporate ESG risks to the traditional investment analysis (Hyrske et al. 146-155, Bloomberg Professional Services 2016, Viksten 2016).

4 RESEARCH METHOD

In this section, I am going to examine the research method that was used in the study and the main drivers behind the choice. Then, I will examine how through the chosen research method the correct target audience was reached and what kind of a role did the preliminary interviews play in the overall research.

4.1 Electronic Mail Interviewing

An in-depth qualitative electronic mail (e-mail) interview is a semi-structured qualitative interview method, where the purpose is to increase the understanding of social and cultural phenomena, instead of coming up with facts about reality (Fidel 1993, Koskinen et al. 2005). Email interview has been used in order to tackle the challenges often faced in traditional in-depth interviewing. These issues include a high cost, extended time requirement, and limited accessibility to interviewees. Yet, gathering the results via email interviewing may still take a long time, depending on the structure of the questions and the reply frequency of the interviewees (Gubrium & Holstein 2002, Patton 2002).

The history of electronic mail interviewing goes back to 1994, when Foster used email as a methodological choice when interviewing the subscribers of different posting lists. Further on, Murray (1995) continued with the same methodology by interviewing nurses in order to discover how the medical professionals were taking advantage of the possibilities offered by information technology as a communication tool (Meho 2005). However, the vast development of the research method did not take place before the twenty first century, where between 2003 and 2004, the same amount of email interviews was conducted than during all the past years together. Several scholars such as Curasi (2001), Kennedy (2000), Karchmer (2001) and Hodgson (2004) have all contributed significantly to the development of the current email interview practices (Meho 2005).

The major benefits considering email interviewing include its cost, efficiency, adaptability, ease of use, a follow-up possibility and the chance of offering the interviewee time to consider the answers. Email interviews are relatively cheap compared to phone calls, or face-to-face interviews, and through them a large crowd of interviewees situated anywhere on the planet can easily be reached and interviewed simultaneously. The interview eliminates the biases that might be caused by unequal social positions or other nonverbal differences between the two (Selwyn & Robson 1998). Additionally, conducting the interview via email removes the influential bias, which might otherwise be caused by the physical presence of the other interviewees. Overall, the method offers the interviewer a possibility to have a conversation with time restrictions only defined by the research schedule (Meho 2005).

However, the negative aspects of email interviewing include the lack of communication via tone, or facial expressions. The gathered data is analyzed as it is, without the verbal interpretation possibilities. Also, gathering the participants for the interviews might turn out to be a challenging task, because the interviewees might be hard to reach (Meho & Tibbo 2003). There are also operational risks related to continuity of the research through the applied IT-systems. The continuity might be threatened if the email communication gets interrupted affecting negatively to the research's planned execution schedule. The stability of IT-systems plays a big role and in case of an error in the email servers, accessing the results might in the worst case become impossible (Meho 2005, Meho & Tibbo 2003).

4.2 Gathering the Data And Analysis

The purpose of this research was to find out how the European financial institutional reason the existence of CSR reports in relation to the three theories, and how have they utilized the information disclosed in the corporate social responsibility reports. The chosen research method was decided on the basis of my research questions. The findings of Fidel (1993) and Koskinen et al. (2005) state that through a qualitative research, the aim is at gaining an in-depth understanding on the research issue, and in order to do this efficiently, I decided to apply a qualitative data gathering method, as suggested by Eskola (1998). Further on, the main factors that led to the decision of using an email interview from a variety of qualitative research options were the geographical location, the existing relationships with the different institutions, the costs of interviewing and the research schedule. Meho (2005) describes the existence of such challenges as those issues, which can be tackled through email interviewing.

The research analysis included four different types of data: 1) the preliminary interviews, 2) the data gathered through the official email interviews, 3) the general discussions that took place in Bloomberg instant messaging chat and 4) the material sent to me by the interviewed institutions.

The first round interview questions were formed in such a way that when I received the replies, I was already able to build a preliminary picture of the practices inside the interviewee's firm. Even though the conducted interview was a semi-structured interview, I decided to rather include a larger set of questions, because otherwise finishing the interviews by email, or through the instant messaging functionality would have taken a long period of time. Additionally, for me, it was not possible to dynamically interact with the interviewees, and therefore I tried to maximize the coverage in each of the emails that was sent forward.

In analyzing the contents of the interviews, I applied the thematic approach. The themes were formed in respect to the semi-structured interview questions. The themes that were applied in analyzing the empirical material were the different theories and their applicability, sustainability reports, modeling/analysis and the value translation process. After defining the themes, I conducted a simplified content analysis, where the replies were first analyzed on a general level basis, and later this analysis was expanded to cover the sub-questions, leading to a more in-depth analysis. Both the general results and the in-depth results were first analyzed on individual interviewee's basis, and after this, on the basis of the three interview groups (Tuomi & Sarajärvi 2009).

The thematic grouping added significant value, because through this the complex emails, which were full of text, were now re-arranged to more comprehensible entities. How the thematic categorization was executed in practice was through an excel sheet, where I had gathered the core ideas of the interviewees' one theme at a time. Through the sheet, it was easier to perceive the similarities and the differences between first the individuals, and later between the different interview groups. Overall, the excel grid helped me greatly in constructing a coherent and comprehensible database for my research analysis. (Tuomi & Sarajärvi 2009).

After the official interviews, I used the literature and the extra material provided to me by the interviewees in order to confirm the coherence of the interviewees' answers. In the end, the information from the materials and the preliminary interviews was integrated into the themed interview results, comprising the company's overall view on the research topic. These materials included excel spreadsheets, portable document files, and Microsoft word documents, which helped me in removing some of the potential observational biases, which could have further endangered the originality of the answers (Meho 2005). Additionally, interpretation about the interviewees approach towards the research topic was conducted on continuous basis throughout the research, as had been suggested by Hirsjärvi & Hurme (2001). Because the email interviewing left a traceable track, this removed the need of rewriting the interviews and it was easy to go back to the conversations in any part of the analysis, if I considered it necessary. Further on, **Figure 3** has been implemented in order to clarify the research process.

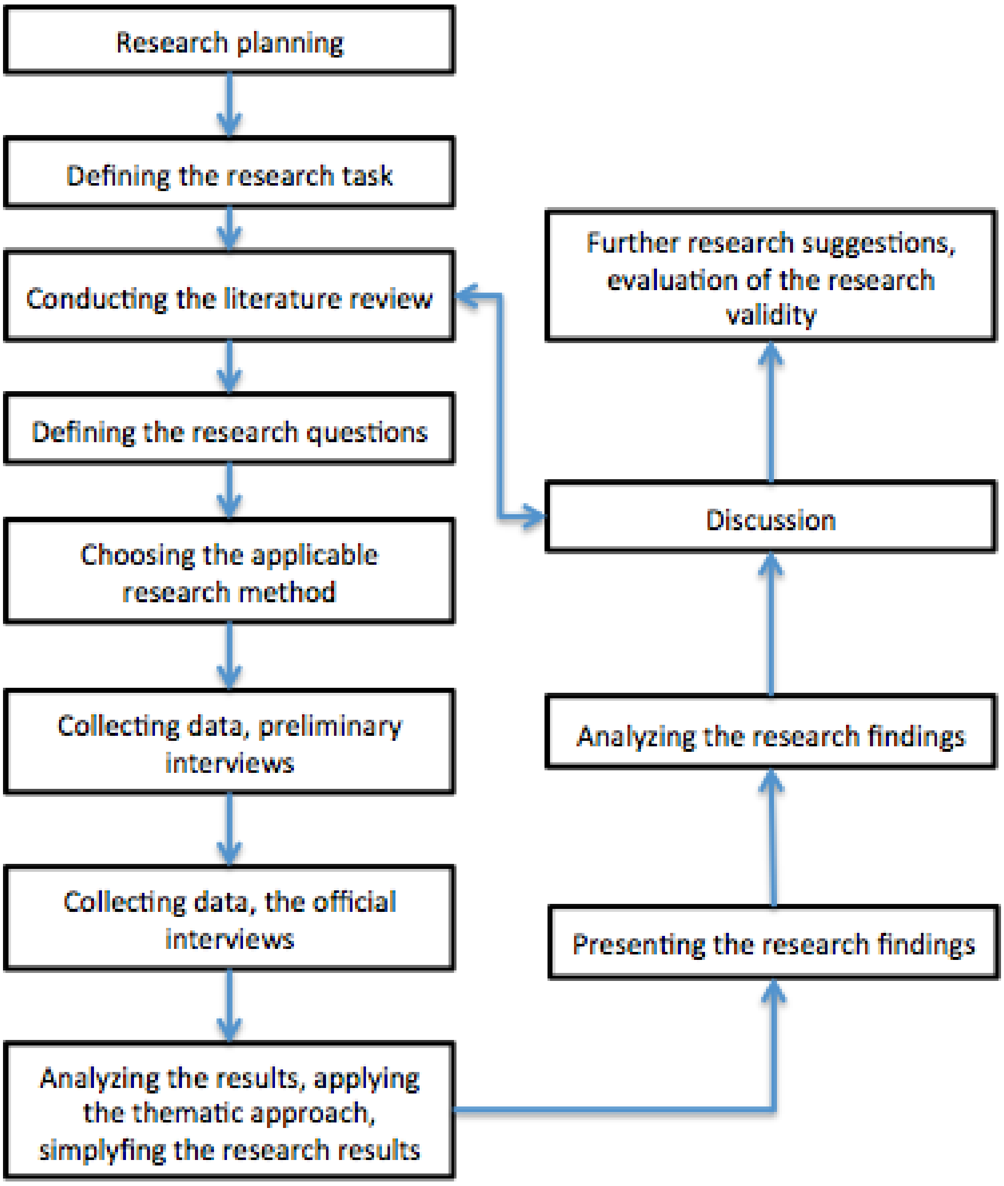

Figure 3 The research process

4.3 Preliminary Interviews

Before conducting the official interviews, I conducted preliminary interviews with different company representatives related to the issue. The preliminary interviews took place via Bloomberg Professional Services instant messaging functionality and through email. The purpose behind these conversations was to discover whether the different organizations were willing to release the requested information, or should the interview questions have been altered in order to conduct the research successfully. These interviews offered me an excellent possibility to examine the different financial institutions' conceptions related to the corporate social responsibility disclosures. The interviews were important in also finding the correct people for the actual interviews.

After the preliminary interviews, I discovered that the interviewed institutions were willing to release the requested information given that their anonymity would be guaranteed. Full anonymity was first requested by six organizations, but in order to guarantee reliable research results, I decided to respect their request by implementing the anonymity to all of the interviews. Through this, I expected to receive more honest answers from the interviewees and to be able to reach an improved coverage with the research. Without this, several organizations would have been unwilling to disclose the requested information, because the negative answers could have caused reputational damage to the interviewed organizations. The level of unwillingness was especially high among those companies, who had considered the CSR reports of little value.

In order to locate the correct employees for the official interviews, I discussed with several different corporate representatives, who forwarded me to the right people. Most of the representatives worked in the sales department and held titles such as head of fixed income sales, head of foreign exchange sales North Europe, head of client solutions and senior credit analyst. This process already gave me a lot of insight into the use of CSR reports among the interviewed organizations.

After conducting the preliminary interviews, I discovered that the issues I had discussed the corporations with, actually played an important role also in relation to the official interviews and my second research question. The contents of the preliminary interviews helped me to form a first-hand picture of how the different interview groups understood the importance of corporate social responsibility reports before the actual interviews were conducted. The time that was spent interviewing different corporate personnel in the preliminary interview phase was also significant. Because of these reasons, I considered it important to also present the findings related to the preliminary interviews in order to increase the transparency of the entire research.

Needless to say, if the preliminary interviews had not been conducted, I would have never been able to conduct the research in such an efficient manner. For example, it would have been impossible to recognize the data dependency relationship between the first and the third interview groups without the preliminary interviews, and through this I would have never gotten the chance to interview also the third interview group. It is because of these reasons why also the findings related to the preliminary interviews are disclosed in the data analysis section.

4.4 The Interview Groups

According to Hirsjärvi & Hurme (2001) and Eskola (1998), the amount of interviews should be limited and the quality of the interviews should be carefully monitored. In other words, in order to reach a general understanding on the studied phenomenon, the amount of interviews should be relative to the phenomenon examined. Therefore, to gain an understanding on the general practices among the European financial institutions, the interviewees were chosen based on their field of business, and the business coverage of the interviewed corporations.

The targeted interviewees included European financial institutions, who through their operations, had a global presence and were all directly linked to the field of investing. This research included three different types of European financial institutions: 1) the investors who act directly in the financial markets as asset managers, 2) investment banks, who act as market makers, and who indirectly have an impact on the first group's investment decisions, and 3) the financial service providers, whose core business was to provide the different financial institutions with solutions and services related to CSR disclosures.

The first interview group with direct investment mandate consisted of representatives from pension insurance companies, hedge funds, funds and other asset management companies, who directly invested their capital to companies in return for financial assets. These companies were targeted because of their role as primary actors in the financial markets. The second group, with indirect investment activities included investment banks, which published price recommendations and investment suggestions related to the companies disclosing the CSR information. These organizations impacted significantly on the first group's investment decisions and in their corporate analyses. The third group includes those financial service providers, whose core business was related to providing the different financial institutions with analysis tools related to the CSR disclosures. This interview group marketed their services to both the first and the second interview groups.

After the preliminary interviews, the final questions were sent to thirteen different organizations via email. These first round questions can be found from the appendices. As suggested by Eskola (1998), the chosen thirteen interviews were based on the estimated amount of interviews required for data saturation. In relation to this, I estimated that the benefit achieved through interviewing more than ten organizations would after the ten interviews start diminishing rapidly, and therefore the thirteen interview requests seemed sufficient. The Increased amount of interviewees could have also expanded the research's scope beyond the limits of a master's thesis. Further on, the chosen group size accounted for the fact that not all of the interviews were necessarily going to be of same quality.

The quality of the interviews varied and in some cases the interviewees considered it easier for them to provide me with such material, which could be used in finding the answers for the interview questions. Yet, I still emphasized the importance of the actual interviews. The interviewees were given the possibility of refusing to answer to the research questions, if the possible replies would have been considered confidential. This possibility was further expanded to cover the whole interview process, which meant that the interviewees would have been able to stop the interview if they had wished to do so at any moment of time. According to Meho (2005), offering this possibility was considered reasonable.

4.5 The Individual Interviewees

The interviewed companies were to reflect three types of financial institutions, from which four belonged to the first group of direct investors, six to the second group and three to the third group. The clear focus of the interviewees was chosen to be on investment banks, which are commonly recognized as efficient and eager users of company information (Schadewitz & Niskala 2010).

The first interview group

Investor 1
The first interviewee was a representative from a Helsinki based Finnish fund with 400+ employees and over 30 billion euros in assets. This organization was a direct investor with a well-diversified portfolio across the world and different asset classes. The emphasis of the interview was in the materials provided by the interviewee. The contact person was an experienced responsible investment professional.

Investor 2
The second investor was a representative of a small fund located in Jersey. It was specialized in ESG related absolute return strategies. The interviewee had a long history in ESG integration and offered me a great insight on how a small agile fund could utilize the ESG data.

Investor 3
The interview was conducted with a Switzerland based private banking group's asset manager, who invested her assets globally, and whose organization held hundreds of billions in assets under management. Along with common investment analysis, responsible investment strategies were conducted in-house. The interviewee had a long experience in managing a responsible investment focused portfolio.

Investor 4
The interviewed person was the head of ESG, and their company operated on global basis. The institution had its headquarters in Helsinki and it acted as an asset manager for both institutional and private clients.

The second interview group

Investment banker 1

The first interviewed investment bank was a major Switzerland-based investment bank with a long experience in the field. The interview was conducted with a London based representative, who was titled as the head of ESG analysis. The bank provided its European customers with investment ideas, research and related services.

Investment banker 2
The interviewee represented a multinational London based investment bank with over 30,000 employees across the globe. The bank has been recognized as one of the biggest operators in the world.

Investment banker 3
The interviewed company was a London based investment bank, which had a strong foothold in the field of investment banking in Europe, and its operations were diversified globally. The interview was conducted with an analyst working in asset sales, who further co-operated with a various amount of his colleagues in order to reply to my questions.

Investment banker 4
The fourth investment banker worked for a UK based investment bank with worldwide operations and over 10,000 employees. The bank had a strong presence in Europe, and it was one of the most common trading counterparties among different investors.

Investment banker 5
The interview with Investment banker 5 was conducted with a banker working for a UK based investment bank, which operated from London. The investment bank was one of the oldest financial institutions in the world and within its reach were a significant amount of European customers.

Investment banker 6
Investment banker 6 represented a bank operating globally, but with a special focus on the Nordic countries. The bank had its headquarters in Sweden, even though the interviewee was based in Helsinki, Finland. He worked as a senior credit analyst, having a long experience in evaluating the creditworthiness of different corporations.

The third interview group

Service Provider 1
The interviewed employee was a spokesperson for the UK based global financial services provider. It had over 15,000 employees in over 150 different geographical locations. Its systems were widely used among different European financial institutions. The company offered a wide range of services including the ESG analysis services. Most of the observations that were done considering the Service

provider 1's operations were based on the literature provided to me by the interviewee.

Service provider 2
The company offered a varying set of financial services to its global customer base. Its product portfolio consisted of analytical tools and indices, which were commonly used among institutional investors. The interviewee provided me with significant amount of data related to their core business, rating practices and the technicalities of their services.

Service provider 3
The third service provider represented one of the most popular credit rating agencies in the world. The company had sold their services to tens of thousands of clients globally. Among the direct investors, the rating services of this company were commonly used in evaluating the company's' creditworthiness.

5 RESEARCH ANALYSIS

This chapter focuses on the examination of the research findings. I reflect these to the theoretical framework that was presented in the first part of the study. In the first part, I analyze the preliminary interviews and then I will move on to the results of the actual research.

5.1 Preliminary Interview Findings

In this chapter, I am going to examine the preliminary interview findings. These findings were discovered before the actual interviews, but because they revealed issues with great importance, I felt that presenting the findings related to the preliminary interviews was necessary in order to achieve a higher level of transparency considering the entire research. These findings paved the way for the actual interviews, and without the preliminary interviews, the amount of replies I would have received, had been extremely low, and the quality of the research poor.

The first group of interviewees consisted of direct investors with a direct investment mandate, the second group of investment banks who participated in inventing new trade ideas and publishing target prices, and the third group of professional service companies who did business with sustainability related products, which were marketed and sold to the first two groups.

The preliminary interviews with the first group, who held a direct investment mandate, demonstrated that those organizations had clearly recognized the benefits of CSR disclosures in their investment activities. These corporations had implemented efficient sustainability strategies, which guided their sustainability operations both internally, and in the external investment activities. It was clear that within these organizations the responsibilities related to the research topic were clearly defined and understood.

The second interview group turned out as different compared to the first group. From the six preliminary interviewees, three stated clearly that they did not understand how the CSR disclosures could be valuable to their businesses. Additionally, among the investment banks the responsibilities related to CSR disclosures seemed to be far from clear. Most of the interviewees had to go through several of their colleagues before finding the right people. From those investment banks that had decided to not use the CSR disclosures, one had attempted to utilize the reports through the training of staff and third party expertise, but in the end, they had failed to experience the positive value and the training had been stopped.

Overall, the investment bankers were all helpful in connecting me with the right people in order to help me with the research. I discovered that having direct connections with the investment banks was crucial, because the people working for the interviewed organizations seemed extremely busy. Luckily, my timing considering the research was excellent because of the summer holidays. This definitely gave me an edge and mostly because of this, I was able to conduct the interviews within such a short period of time.

The contact information of the third interview group was provided to me by the first group of direct investors. They had solid connections to the service providers, who had provided them with ESG related data in the past and in some cases, still did. This saved me a lot of time and effort considering that most of the data I received from the third interview group had not been granted to me if these connections would have not existed. Their approach towards sustainability was from all interview groups the most professional, especially when it came to utilizing the CSR disclosures to everyday use. The service providers knew well how this information could be taken advantage of, and how this could be marketed forward forming a solid business.

It appeared that the investors with direct investment mandate were more aware of the fact how the CSR disclosures could be taken advantage of, and how this was organized inside their organizations, when compared to investment banks. For investment banks, it was not clear whether these reports were being used at all or if they were, who in the organization were using them. However, the most sophisticated systems were clearly among the financial service providers, who had created a successful business out of the first two groups' lack of knowledge.

5.2 The Analysis Of The Applicability Of The Underlying Theories

The three applied theories, which in this research were used to analyze the financial institutions' reasoning behind the existence of CSR disclosures, were the stakeholder, shareholder and legitimacy theory. The interviewees were mostly not familiar with these theories, but the majority of them of them had managed to find the descriptions online, and those who had not, contacted me for the descriptions. Next, I will analyze how the different interviewees understood the existence of CSR reports and whether the characteristics of the in-question theories were observable in an actual business environment. The following analysis is presented on the basis of the three different interview groups, and summarized in the end of the chapter.

5.2.1 Stakeholder Theory

Considering the stakeholder theory by Freeman (1984) and its applicability as an explanatory theory behind the CSR disclosures, the results were not self-evident. The theory suggested that the CSR reports existed because they matched a clear demand set by an important group of stakeholders.

The first interview group of investors was often considered to be of top priority stakeholders, because of their direct ownership with the financial assets released by the companies. Among the direct investors, the CSR reports were considered fairly important by all four of the interviewees. However, the relationship between the investors and the CSR disclosures was not regarded as top priority, and the interviewees believed that the reports were mainly targeted at other stakeholder groups, who perhaps could benefit from them in a more efficient manner. Derived from this, the demand to disclosure CSR reports had never been communicated to the corporations by the investors. Despite the fact that all of the four interviewees understood themselves as important stakeholders, they all agreed that the primary form of preferred information was still the financial information.

Investors 1 and 3 pointed out an important problem, which according to them, had only on rare occasions been recognized among the corporations. Investor 1 described how their processes, when it came to maximizing the benefit from the financial data produced by the companies, were well implemented and efficient. However, the processes related to dealing with the CSR reports were yet not as sophisticated. She commented that because of this, it would have been pointless to set such publication demands for the corporations. However, she still highlighted the importance of CSR reports by stating that their importance should not be underestimated. Because of the informative nature of the reports, they still served the investors' needs. Both Investors 3 and 4 then agreed with this idea.

Additionally, all four interviewees emphasized the importance of the third party service providers as middlemen and without the existence of sustainability reports, the investors would have been left with no knowledge on the investee's corporate social responsibility performance. It appeared that considering the stakeholder theory and the first group, there was no clear indication of the fact that the direct investors would, even considering their importance through stakeholder salience, have acted as a demand setter for the CSR disclosures. The Investor 3 added that perhaps the corporations who publish the CSR reports should rethink the process through which the most important stakeholders are commonly defined, because the third party service providers might indirectly set informative demands on behalf of the investors, while at the same time being treated as an un-prioritized stakeholder group.

The second interview group consisted of six investment banks, which were all significant measured through their operational volumes and coverage in Europe. The investment banks, through their indirect chance to influence the direct financial organization's investment decisions held a role as a key stakeholder group. However, their approach towards the use of CSR disclosures was quite different.

According to an anonymous trader from Investment banker 3's organization, they had had people participate in CSR seminars in order to find out how the disclosed information could be used as a part of the investment bank's operations, but this had led them nowhere. He continued by stating that the time spent analyzing the long reports, had not occurred to them as the time worth spending and that the tradeoff between spending the time analyzing the company through the traditional framework and reading the sustainability report had not seemed worth making.

The interviews indicated that the practices among investment banks were polarized and that the role of the CSR disclosures was rather to act as general forms of corporate communication instead of the type of information, which would have been highly demanded by the investment banks. When asked about the applicability of stakeholder theory and the role of investment banks as stakeholders, Investment banker 2 replied:

> "It is possible that the CSR disclosures exist because of a demand shown by an important group of stakeholder, however, this group of stakeholders does not primarily consist of us, the investment banks. We tend to utilize as much information as possible, but unfortunately our research department is often in no such position where they would be able to set informative demands for corporations."

The interview with the first group had already revealed that the way the companies today understand the term stakeholder did not cover all the necessary aspects, including the indirect importance of different stakeholder groups.

The interview with **the third interview group** helped me understand how true this was. The group felt like their importance was not understood in full and that they had been often seen as a group with pure business interest, ignoring the fact how they acted as a primary information provider for the investors. In some situations, Service provider 3 described how the companies had seemed to regard their information requests as secondary, clearly not understanding that the true demand for information might have in fact risen from the investors' side, and may have only been requested through the service providers. Another interviewee had faced similar issues and they thought that their requests for information had not been prioritized high enough. Overall, interviewing the service providers indicated that the closer the CSR disclosures were to one's core business, the higher was the likelihood of feeling depreciated as a stakeholder group.

All in all, the stakeholder theory prioritizes different stakeholders through stakeholder salience including the aspects of urgency, power and legitimacy. In spite of belonging to the core group of corporate stakeholders, the investors did not see themselves as the demand setting stakeholder group, because of their unsophisticated processes and the lack of professional capabilities to fully benefit from the CSR disclosures appropriately. Additionally, despite being an important stakeholder group, the investment banks did not consider themselves as one of the main target groups for the CSR disclosures either, and they rather saw the reports as general means of corporate communication. For them, benefitting from the reports seemed like an awful lot of work, and they all agreed on preferring the financial information to anything else. The third interview group felt like their needs were not respected highly enough, because the companies did not seem to fully understand the service provider's role as a deliverer of non-financial information.

It therefore appeared that the stakeholder theory did seem to apply partially as an explanatory factor, but from all three groups of financial institutions, neither of the non-dependents saw themselves as the primary users of CSR disclosures, nor as primary requesters for such information.

5.2.2 Shareholder Theory

The question whether the CSR disclosures have an impact on corporate valuation or not was essential considering the applicability of shareholder theory. Explaining the existence of CSR disclosures through shareholder theory meant that the reports only existed because their existence had a positive impact on the corporate's valuation and this encouraged the company management to produce the reports in order to maximize the value experienced by the shareholders. In other words, the benefits that were achieved through CSR reporting had to exceed the costs leading to a positive contribution to the company's net valuation (Tse 2011, Friedman 1962).

All four interviewees from **the first group** agreed that the CSR disclosures created value, which was, however, hard to quantify. Yet, Investor 1 did not consider the type of value as an important factor, and she added that if a company had suddenly decided to not disclose their corporate social responsibility information, this would have inevitably led to more questions, and also decreased the attractiveness of the company as a potential investee. The Investor 2 continued by coming forward with the idea that because of the direct fiduciary connection with the investee, the asset managers participated in the costs caused by CSR reporting, in the form of increased corporate costs and decreased corporate profitability. Coherently, the four investors all agreed that the reports did hold intrinsic value, however how this value was experienced by the investors, was fully dependent on the processes of the investor, and the type of CSR reporting that had been used.

The second group was not certain about the potential of the value possibly created in the form of CSR disclosures. One of the investment bankers told me that the current value definitions related to the disclosures failed to see the bigger picture, where the benefits gained from reporting were only examined through the corporation's eyes. It was not only important to analyze the costs of producing the CSR reports among the corporations, but the data utilization costs experienced by the data users were also important. This net impact should have then been the main driver for the decision whether the reports should be produced or not.

Some investment banks had faced technical difficulties, such as Investment banker 3, who gave an example where their corporate analysis department had not managed to establish efficient relationship with one of the analyzed firm's IR office. Succeeding in this would have played an important role in verifying the correctness of the information, which had been applied to analysis. All in all, three of the investment banks considered the shareholder theory as a poor factor in explaining the existence of CSR disclosures, because the value related to the disclosures remained uncertain and extremely hard to measure. Because of this, it was extremely hard to evaluate the impact of the produced value on corporate valuation and further to the net value, which also accounted for the information utilization costs from the investor's side.

The third group definitely saw the value in CSR disclosures, however the efficiency of the value transformation process from the service providers to the investors, remained uncertain. In their point of view, the value that was created through reporting consisted mainly of the decreased information asymmetry, which through their business translated into enhanced investment analysis and to an increased understanding of the CSR related risks. Yet, Service provider 2 stated that the impact of this on the corporate valuation was still hard to determine. It became clear that the third interview group clearly enjoyed the most value, and they considered the disclosures definitely worth producing, leading to a positive net value among the third interview group. Still, as described by both Service provider 1 and Service provider 3, they did not believe that the shareholder theory could be used in explaining the existence of the disclosures, because of the unequal value distribution and the diversified understanding on the general concept of value and how it is produced. According to Service provider 2, all investors had their individual corporate valuation methods and therefore trying to evaluate in which companies did the CSR disclosure translate into an improved corporate valuation, was impossible.

The value of the CSR disclosures seemed to be understood by all of the interviewees, but only eight of the ten interviewees clearly agreed that the reports withheld value. Among investment banks, it was harder to find people responsible for taking advantage of the CSR reports and this clearly had an impact on how the investment bank considered the importance of those disclosures. As a summary, the existence of the disclosures cannot be purely explained through the shareholder theory because of a high amount of company shareholders, who all participate in the costs of producing the reports and in sharing the net benefits from those disclosures. This ideology excludes a lot of important stakeholders such as the investment banks, who might have benefitted from the reports, but whom as non-shareholders did not participate in the costs and this caused imbalances in the benefit distribution among different stakeholder groups.

5.2.3 Legitimacy Theory

According to legitimacy theory, a corporation is continuously seeking for acceptance in its operational environment, and through matching the value systems within the firm and of its environment, legitimacy can be achieved (Lindblom 1994). The first group of direct investors agreed that the legitimacy theory, from all three theories, was the most valid and it could be used in explaining why the CSR disclosures exist.

The general understanding among **the first interviewee group** was that the legislation should set the basic framework when it came to targeting at reaching legitimacy. However, the interviewees disagreed on the depth through which the legislation should guide the corporate's social responsibility. Investor 2 considered the surrounding regulatory environment as an efficient determinant when the sufficient level of corporate CSR was discussed. However, Investor 1, Investor 4 and Investor 3 did not agree, and they added that the level of CSR, when determined by the legislation, often tended to get set lower than when set on voluntary basis. The reason they said was that the legislation often lacked behind and was only in rare occasions a forerunner in standard setting. Investor 1 continued by bringing up the definition of corporate social responsibility by the European Commission, which stated that CSR had to be conducted on voluntary basis, and only the actions, which exceeded the legislative requirement, could be considered as CSR. The investors considered the legitimacy theory as the most applicable, because its definition seemed to be flexible enough.

The second group, however, were clearly more focused on financial disclosures than on any CSR related reports when it came to achieving legitimacy. Investment banker 2 commented that the core business of the investment banks focused more on the traditional analysis, which included mostly the handling of financial data. Therefore, the concept of legitimacy was understood as something that could have been achieved through the publication of financial disclosures, not voluntary based CSR reports. However, Investment banker 3 and Investment banker 4 described how the investment banks' needed to adapt to the increasing CSR awareness, and perhaps through the use of CSR disclosures, the information related to corporate social responsibility could in the future increase their understanding on the sustainability related risks.

If the CSR disclosures existed as a response to the legitimacy requirement, was understood quite differently between the different investment banks. Investee 5 had a significantly sized team focused on corporate engagement and social contributions including taking advantage of CSR disclosures, when Investee 6 had not considered the CSR disclosures important at all. However, all four interviewees appeared as market takers instead of market setters. In other words, the investment banks clearly focused on taking advantage of the information published by the companies and not on setting the surrounding values. Again, confusion about whom the companies generally urged to serve through their CSR disclosures was clearly present.

All three from **the third group** considered themselves as important stakeholders. However, they did not feel like they could influence the corporate behavior enough to comment on the legitimacy basis of the corporations. However, what they agreed on was that the reports helped the companies to operate in their business environment and achieve legitimacy. Yet, the value environment set by the local legislation was considered as a positive driver, however, the consideration could be explained by the fact that such development also drove the financial service providers' business. The main point, which all of the three interviewees tried to put across, and which was enforced through the documentation provided to me, was that the requirements for legitimacy varied depending on the geographical location and the cultural environment. In some parts of the world, there existed no requirement for such disclosures and this had led to a decreased amount of published CSR disclosures. On the other hand, in places such as Europe, the legislative development had obliged the companies to publish such reports. Service provider 2 summarized the situation by explaining how achieving legitimacy could take place through voluntary based reporting, which should only be supported by the surrounding legislation.

The general conception among the interviewees of whether the legitimacy theory could be used to explain the existence of CSR reports was that from the three theories, this was most definitely the most applicable choice. All interviewees agreed that legitimacy could be an important driver depending which organization acts as the demand setters. Achieved legitimacy appeared to depend fully on the surrounding environment. The actions that could have been understood as sufficient for legitimacy had not necessarily been understood as such in other geographical location or in other stakeholder's opinion. Therefore, the elasticity of the theory appeared to attract all of the three interview groups.

5.2.4 Conclusion

Through the research, it became clear that all of the three theories could be applied to some extent as explanatory factors, which potentially guide the management's behavior towards producing corporate social responsibility reports.

However, there were significant differences in the theoretical ideologies and the practical applications. For example, the stakeholder theory explains the existence of CSR reports through the demand set by important stakeholders. However, there seemed to be confusion among the different interviewees about who really were these important stakeholders. Not even the direct investors recognized themselves as the main target group, which would have set such demands for corporations. The third interview group had felt like their needs had not been appreciated high enough, but for me it appeared that these feelings were mainly guided by business incentives.

In shareholder theory, the company management only engaged in producing such information, which had a positive impact on the corporate valuation. However, the interview groups all agreed that the value related to the disclosures was extremely hard to quantify. Therefore, whether these disclosures contributed positively to the company's market value or not, remained uncertain. Another issue was with how differently varying actors experience value. Informative value, which might have been valued by some of the interviewees, was not appreciated at all by others. Therefore, because of the different value experiences, it was challenging to determine whether the theory could be used as a reasoning factor.

Last, legitimacy theory was experienced as the best theory, which could have been applied to explain the existence of CSR disclosures. However, the main reason seemed to be that for the interviewees, this was the easiest solution. The idea behind this was that none of the interviewees had to take responsibility of the information demand setting. Generally speaking, it could be stated that the demand for such publications originated from the general operational environment. Through this, the interviewees did not have to feel guilty if they could not fully utilize this information, because it had not been targeted mainly at them in the first place.

6 THE INVESTMENT PROCESS APPLICATIONS

The frameworks through which the CSR disclosures were applied to investment processes varied on organizational basis. Because of this, I am going to examine the applied practices in three groups, including the direct investors, the investment banks, and the financial information providers. Additionally, the interview group practices are analyzed in every part of the investment process including the normative framework, investment analysis, and investment management.

6.1 Normative Framework

The normative integration of CSR disclosures was mainly focused on the first interview group, which included the direct investors. However, the theoretical approaches to responsible investment, as was presented by Hyrske et al. (2012), did not clearly recognize the fact that in order to execute most of the approaches, a lot of information and knowhow would be required, which in most of the investor's did not seem to have, or if they did, they considered themselves as somewhat forerunners in the field.

Additionally, all of the interviewed investors had decided to apply the information disclosed in the CSR reports indirectly to their normative framework. This meant that all of them were using third party provided data as a factor limiting their investment universes.

Among the investment banks, the implementation practices took place only in the company analysis phase. Among the third interview group, the applications to the interviewees' normative frameworks did not seem to exist and I decided to focus more on the role this group had in influencing the investor's normative framework. The role of the third group was somewhat special, because their purpose was to provide the first interview group with sufficient information for decent responsible investment screening. This information could have possibly been produced by also the second interview group, which however, had decided to not yet do so.

6.1.1 First Interview Group

The approaches that were recognized among the direct investors were mainly related to responsible investment. Landau (2016) explained that these criteria had often been the most common, and first steps in the road of implementing responsible investment into asset manager's operations. This statement seemed to hold true, because the investment exclusion was clearly the most commonly presented approach to responsible investment among the interviewed investors. Investor 1 explained how the pre-defined exclusion criteria had been applied already in the first phase of the investment process, so that the companies, which did not follow the criteria, did not have to be taken through the whole investment process. All four of the interviewees described how in their processes, the exclusion would have been conducted on varying basis, but mainly through using the data provided by the financial service providers. However, only one of the interviewees had decided to apply direct normative exclusion to their investment practices.

Investor 1 described how in their organization, in-house criteria such as participation in the production of nuclear weapons, death penalty and inefficient carbon dioxide emission performance were used in order to form the exclusion framework. She argued that the internal values of the investors had to be reflected in their investment activities, especially in such cases where the asset managers acted on behalf of their clients, which meant that their value frameworks should have actually been a reflection of their asset owners'. This was coherent with what was presented by the Investor 3, who stated that the main driver behind the ESG analysis had for long been the individual investment philosophies and values of the interviewees' clients.

According to Investor 1, the exclusion acted as a clear message for those companies who had been looking for capital and operated in the industries within the investor's exclusion framework. However, this contradicted with the practices of responsible investment, where the primary form of impacting the corporation's behavior was through corporate engagement and not exclusion. In my point of view, this was an important point, because in a low yield investment environment, narrowing down the investment universe even further might turn out to be an unwise choice. A question that Investor 1 left me wondering was that did the portfolio risk reduction in the form of investment exclusion actually exceed the increased risk caused by a less diversified portfolio.

Following the first interview, Investor 2 and Investor 3 did not agree with Investor 1. Investor 2 explained that because they used a long-short quantitative investment strategy, which focused on the materiality of different ESG factors, they rather sold short the investee company's' shares than excluded them from their investment universe. In fact, applying the exclusion method would have made it impossible for them to conduct their investment strategy. According to Investor 2, the ESG factors were understood as inefficiently priced and through the mispricing, those investors who focused on analyzing the factors were able to create alpha. In contrast to this, Investor 3 had decided to utilize the approach through the exclusion of those companies who had received a sustainability rating lower than BBB. They believed that by doing this, they would be able to manage the CSR related risks better. On the other hand, this decision meant that the value base through which the exclusions were conducted reflected the values of their service provider, not of their clients. However, they did not consider this as a problem, because in their opinion the clients had trusted them with their capital with a clear mandate to operate through the practices that the asset manager had considered the best. Yet, Investor 3 reminded me that the original need for ESG inclusion had come from their clients, and therefore their values had not been dismissed even though the third party services had been used.

Overall, the three investors showed three different approaches considering the integration of CSR disclosure related information to their value framework. They had all applied individual approaches to ESG integration, as had been done in the examples presented by Croft (2009). One of the interviewees considered it important to use in-house exclusion criteria, which were defined by the values of the company, and further of their clients'. These criteria were then used in excluding the companies from the investor's investment universe. The second interviewee argued that the ESG factors were currently underpriced, and through the exclusion approach, their investment strategy could not exist. Therefore, instead of excluding the companies from their investment universe, the investor had decided to position itself in a way, which reflected the organization's view on the investee company's sustainability status. This positioning was conducted through the trading of the financial assets of the investee. However, the third interviewee had an alternative view and they had decided to outsource the preliminary picking of the investees to the financial service provider, who provided them with the ESG ratings, which were then applied as the exclusion criteria.

6.1.2 Second Interview Group

Having no direct investment mandate, it was clear that the second interview group had not integrated the information related to the CSR disclosures into their value frameworks. However, Investment banker 1, Investment banker 2 and Investment banker 6 had decided to respond to the requests of the direct investors by having a group of employees working with the CSR related information including the CSR reports. The purpose of this action was to support their clients with the growing demand for CSR analysis.

The second interview group discussed how they had already had several clients, who had used the bank's analyses in a similar manner to a third party provided ESG ratings. Investment banker 2 added that some of the clients had also applied these ESG analyses as exclusion criteria. Investment banker 1 described how most of their clients had welcomed the new service extremely positively, however, she added that there existed still fairly low amount of people who knew that the investment banks were actually providing the investors with supportive material when it came to CSR. This was then agreed both by the Investment bankers 2 and 6, who had also recognized the same challenge.

Another aspect to this was that the investment banks had decided to produce the analyses for their internal purposes, and especially in order to improve the quality of their internal analyses.

6.1.3 Third Interview Group

The role of the financial service providers was to provide the first two groups with such supportive information, which could further be used as part of investment decisions. As was suggested by Investee 3, the financial service providers were able to provide the investors with valuable information, which in some companies was used as a standalone factor defining the investment universe of the investor. Service provider 2 argued that the idea behind their business model was to help their clients in creating strategic competitive advantage through offering them additional ESG services. Their clients would then be able to analyze companies based on their ESG performances and could then decide in-house, which companies or industries to exclude and which ones to include. She stated that the need for such services had increased on daily basis.

In contrast to these, Service provider 1 had decided to support the investors by providing them with plain CSR related information through their online platform. The analysis services of Service provider 1 were actively used by all of the interviewees from the first interview group. Yet, Service provider 1 was not aware that the information provided by them would have ever been used as an only source of information, when deciding on possible investment exclusions. For me it appeared that the purpose of Service provider 1 was to provide the investors with a solid financial information platform, and the ESG aspect had only recently been added as an additional service to their traditional business.

6.2 The Investment Analysis

After the normative framework, the first interview group applied different methods in order to integrate the data disclosed in the CSR reports into their investment analyses. This was done in multiple ways, and the practices varied depending on the institutions. In this chapter, I will examine the different practices among the direct investors, then move on to the investment banks, and last I will examine the financial service providers and their approaches to benefitting from CSR disclosures.

6.2.1 First Interview Group

Investor 1 and Investor 4 focused primarily on investing through responsible investment, meaning that the primary driver for their investments was the investment return and corporate sustainability was only treated as a secondary driver. Responsible investment was conducted in the form of ESG integration, which acted as an add-on to the traditional investment analysis. In the organization represented by Investor 1, they had used several rating services and analyses provided to them by the financial service providers such as Service provider 2 and Service provider 3. Investor 2 and Investor 4, who described how they had also decided to use the datasets of the service providers, agreed to this.

However, Investor 1 thought that this information should have not been applied blindly, and that there clearly should have been someone inside the investor’s organization who had been able to take a deeper look at the analyses in order to evaluate both their accuracy and validity. In contrast to Investor 1, Investor 3, and Investor 4 had all decided to use the ratings as a primary tool, which were used as a crucial factor in defining the depth of their investment universe. Therefore, in order to be considered as an investee, the target had to first achieve a certain ESG rating defined by the service providers. Yet, there were significant differences in how this information was used, and how deeply was the investor dependent on this information.

As an example, the analysis in the organization of Investor 1 included the use of those ESG ratings that had been provided to them by the service providers. However, in the analysis process, the companies were analyzed differently based on the received ratings. If the company had received a high ESG rating, the analysis did not have to be as throughout, as it was with those companies who had received a poor ESG rating. In practice, this meant that in case of a poor rating, the portfolio manager had to read through the ESG analysis in order to gain an understanding on the possible risks related to the ESG factors. They were also to study the reasons behind the poor ESG rating. In Investor 1's responsible investment practices, best in class approach, positive screening, negative screening and best in class approaches were the most common forms of responsible investment. These were also familiar to Investor 3, Investor 4 and Investment banker 1. As a practical example, Investor 1 said that they had just decided to apply the negative screening method and because of this they had reduced the amount of carbon dioxide intensive companies, especially those producing energy via coal combustion, from their energy portfolio.

For Investor 2 the ESG data appeared to be crucial. They had based their entire business on the data available in the form of ESG analyses. How the analysis worked, was that the Investor 2's company received a set of data points, from which Investor 2 picked approximately 20-30 and used these in their analyses. Because of applying quantitative strategy, Investor 2 had not included the qualitative information in their ESG analyses, whereas Investor 1 and Investor 3 had emphasized the importance of qualitative information. Investor 2 described how they, as the only investor from the interviewees, had earlier tried to transform qualitative information into quantitative data, but this had soon turned out to be of no little value, leading to the use of pure quantitative data.

The data points were all ESG related and had included anything from number of workplace accidents to average career length, depending on the industry. The results from this dataset were then used in defining the best, and the worst sustainability performers relative to the chosen criteria. Further on, Investor 2 had then used this information in order to position himself in the market. When asked about the risks related to the data validity, Investor 2 replied:

> "ESG data is fairly young, biased, and often not audited. Therefore, healthy skepticism towards the data should obviously exist. This is why we have decided to use the data disclosed in CSR reports only partially, without accepting blindly everything that is offered to us".

Investor 2's organization had only been established quite recently, but they had still managed to develop their datasets extremely efficiently.

Investor 1 and Investor 3 had not based their strategy fully on ESG factors, but on traditional investment strategies. Investor 3 began the interview by explaining how in her opinion, the CSR disclosures were nice, but when used as they were published, useless. According to her, the main reason was that the CSR disclosures included too much information and analyzing these reports in-house was found out to be extremely resource intensive. For her organization, using the third party services had been crucial because through this a lot of time and effort could be saved.

For Investor 3, only those companies that had achieved both a higher ESG rating than BBB and a higher Intangible Value Assessment (IVA) than A were included in their investment universe. Those companies who conducted controversial business such as weapons manufacturing, were instantly excluded. Then, the rest of the companies were categorized according to 12 different ESG themes and after this by their business sector. The themes could have been anything from climate change to land use, depending on the analyzed company.

After this, relative performance analysis was conducted. In this analysis, the financial performance of the investee company was compared to their peers. Finally, the traditional company analysis and technical analysis followed leading to a set of potential investee corporations. Investor 3 had clearly the most sophisticated process when it came to using the ESG data as part of the company analysis. The different parts of the process seemed to complement one another, and the different process parts appeared well thought through.

What the investors regarded as usable information within the CSR disclosures varied significantly. According to Investor 1, the main form of value behind in the CSR disclosures was the informative value, which was then interpreted by the service providers and translated further to their ESG ratings. By contrast, Investor 2 considered only the quantitative information as important, because measuring the qualitative information had turned out to be extremely challenging. On the other hand, Investor 1, Investor 3 and Investor 4 had all decided to use both qualitative and quantitative information in their modeling.

Overall, the differences between the four direct investors were clear: Investor 1 had chosen to apply different responsible investment approaches and ESG ratings provided by a third party in their investment processes and the role of their ESG integration restricted partially their investment activities. The organization behind Investor 4 followed a similar pattern, however, the purpose of their ESG team was to act together with the asset managers without restricting their investment universe. On the other hand, Investor 2 had their entire investment strategy relying on available ESG data. This data was again provided by a third party in the form of data sets, which were used in their long-short investment strategy. Inside the Investor 2's organization, all personnel were trained to support the asset managers, plus the asset managers were trained as well in order to understand the CSR related risks as well as possible. However, Investor 3 had clearly the most sophisticated process, when it came to benefitting from the CSR disclosures

6.2.2 Second Interview Group

The variations within the second interview group were the most significant of all interview groups. It became evident as early as during the preliminary interviews that there were two types of investment banks when it came to using the information related to CSR disclosures - those who used them efficiently, and those who did not consider them valuable.

Those investment banks, which had decided to use the information, had fairly sophisticated processes, and recognized that the CSR reports were something that created additional value to investment banks' analyses. None of the investment banks operated through third party provided services and if CSR analysis was conducted, it was based on in-house operations and data examination. Investment banker 1 explained this by telling me that they had constantly managed to find errors in the third party provided information, and had therefore decided not to include this data in their analyses, or purchase their services.

Investment bankers 3, 4 and 5 clearly stated that they did have systematic processes in place, which would have enabled them to take advantage of the CSR. Investment banker 3 continued by explaining:

> "We have had analysts participate in multiple seminars in order to find out whether these disclosures could be of value, but the results have not supported the use of the reports in our corporate analysis"

He continued by saying that in order to take advantage of these reports, knowledge beyond the common financial analysis was required, which was something they did not currently have in-house. Additionally, without these capabilities, Investment banker 3 considered the CSR reports as impossible to work with.

He was not alone, because both Investment bankers 4 and 5 had faced similar difficulties. Investment banker 4 had a separate team of analysts focusing on climate change and sustainability related possibilities, but this had nothing to do with analyzing the companies based on their sustainability performance. Investment bankers 4 and 5 had not considered the ESG analysis especially important to their business operations. As an example, Investment banker 4 had contacted 17 different analyst teams, from which none had used the CSR disclosures in their corporate analyses. Reason being exactly the same that had already been presented by Investment banker 3: the lack of professional understanding on how the CSR information should be included in corporate analysis and the lack of resources.

Those investment banks, which had decided to use the disclosures, included Investment bankers 1, 2 and 6, who all had implemented systematic processes to deal with the CSR data. Investment bankers 1 and 2 used the CSR reports in order to collect non-financial data, which was further translated to ESG research reports by their analysts. For Investment banker 1, the preferred data form was the GRI framework, because it provided the bank with comparable data, which the analysts were able to use across different sectors.

An interesting point brought forward by Investment banker 1 was that the bank interpreted the GRI as something, which all listed companies were able to follow. If this reporting framework had not been applied, the bank interpreted this as a clear and determined choice not to do so. Considering the use of the GRI, Investment banker 1 added:

> "The GRI framework is used in our organization in quantitative ESG risk analysis, and it brings up interesting differences between the attitudes of corporations. Without the GRI data provided by the company, we are not able to evaluate the entire risk profile of the company, and these risks may then be entirely inappropriately accounted for in the investment decisions of our clients."

Other points of interests for Investment banker 1 were the use of the reports as a risk management tool and the consistency tracking of the reports. Investment banker 1 stated that the main focus of their data gathering was in outlining the development that had taken place in the measured companies. She described how they had ranked the companies based on their sustainability performance and these rankings were further used in forming both sectoral and individual ESG ratings. These ratings were based on the sustainability exposure, country risk score, CSR disclosure score, extraction score and safety score. These five variables were used when defining the top and the bottom quartile of the defined sector. Last, these variables led to either positive or negative screening and this information was then passed on to the clients of the investment banks.

Despite the importance of environmental and social information, the investment banks all agreed that the most important aspect of the information related to CSR was the information related to the governance of the investee companies. Investment banker 1 and Investment banker 6 explained how they had a special interest towards the board structure, management changes, management experience, board independence, and the board's track record in achieving the set goals. These were all emphasized as important risk factors, and if realized, their impact on the company's valuation could have been significant. Investment banker 1 and Investment banker 2 described how also the execution efficiency of the management could be monitored. Despite the fact that most of the reports dealt mainly with environmental and social issues, they still offered the investment banks an excellent way of examining how efficiently different goals and targets were achieved by the management. If the goals had not been re-evaluated in case they were for sure to be missed, it acted as a clear indicator of poor management practices and problems in the strategy execution.

The teams who produced the ESG reports in Investment banker 1's and Investment banker 2's organizations consisted of equity analysts and sustainability professional, who all had economics backgrounds. They had experienced both intra work, and external training related to how the ESG analysis should be conducted. Even though Investment bankers 1, 2 and 6 all conducted in-depth ESG analysis based on the CSR reports, there were differences in who were seen as the correct personnel for analyzing the ESG information. Investment banker 1 and Investment banker 2 had an entire team dealing with the ESG information, when Investment banker 6 had educated all their in-house credit analysts, plus separated ESG analysts to conduct the analysis. Also, the interviewees had different views on how the ESG aspects should be considered as a part of investment analysis. Investment banker 1 stated that the main mission of their ESG team was to act as a supportive organ for the traditional analysts in order to complement their work. The same practice had been applied in Investment banker 2's organization. However, in Investment banker 6's organization, understanding the ESG aspects was considered as every employee's duty.

6.2.3 Third Interview Group

The financial service providers had clearly the most sophisticated systems in place when it came to using the CSR disclosure information. For them, the CSR reports in their different forms were the main source of information. The practices among Service provider 1, Service provider 2 and Service provider 3 varied significantly. For Service provider 1, offering the information related to ESG was only an additional service producing extra value for their customers, when Service provider 2 had based their whole business on the produced ESG data. Service provider 3's main business operations were around other rating services and it had decided to focus only on the governance side of the ESG analysis.

Service provider 1 considered it important to provide its customers with a dynamic package including excel spreadsheets, dynamic ESG platform and a comprehensive ESG scoring tool, which could have been used in order to make comparisons between companies and to monitor the company's ESG related progress. Through their ESG platform, their clients were able to monitor the historical progress of the company.

For example, considering the environmental side, Investee 10 had focused on using different kind of key indicators such as greenhouse gas/revenue, used energy/revenue, waste/revenue and wastewater/revenue. The social side was examined through the amount of women in management, employee turnover, and employees unionized. Finally, the most important indicators considering the governance were the amount of women directors, directors' average age, board size and composition, and the board meeting attendance percentage. Service provider 1 could not comment on the validity of the data, because they had only gathered the data based on the published CSR reports. For them, it did not matter how the company had decided to publish the data, because they had built a set of queries and macros, which looked for the ESG information from all kinds of sustainability reports. Yet, they admitted that there existed a risk where the information was not fully comparable through different industries. Additionally, through their portal it was also possible to compare audited and unaudited data, which could have led to confusion among customers.

From their interview group, Service provider 2 had clearly the most in-depth knowledge on how to benefit from the CSR disclosures. Their core business focused on how the CSR publications from different companies could be translated into valuable information, which could then be marketed to their customers. Service provider 2's sustainability analysis concentrated on using thousands of different data points, which were used in rating the companies based on their ESG performance. However, the ratings were not only based on the CSR disclosures, but included data from NGOs, governments and media. Over one hundred professionals with multiple different backgrounds analyzed this information. The basics of ESG rating included five sections: data gathering, exposure and management metrics, key issue scores and weights and finally ESG rating of the company.

The CSR data of Service provider 2 was gathered from multiple sources, including the CSR disclosures of the companies. Their organization took advantage of both qualitative and quantitative information, and they tended to translate data into the best possible form, depending on the data type. If the data was of better used when translated into a quantitative form, this was then conducted. According to Service provider 2, the data was monitored dynamically, and possible changes were often transferred to the company's rating extremely efficiently.

New reports were issued on weekly basis and quality checks were told to take place at each part of the analysis process. However, because the data was from multiple sources, Service provider 2 considered it challenging to audit all of the data points and because of this they had invited companies to participate in a formal data verification process. In this process, the companies participated in verifying the data published by them. She admitted that in the past, mistakes related to the ESG rating of companies had been done. Yet, these had been corrected as soon as they had been noticed.

After gathering the data, the Service provider 2 illustrated how in the next part, this information was inputted into the exposure analysis part of the process, which concentrated on analyzing the company's core business, location of its assets or revenues and other plausible exposure relevant indicators. The special focus was put on those issues, which could have been easily materialized, including such as environmental risks, or poor supply chain management. Overall, this part of the analysis used over eighty different business and geographic segment indicators, which were combined with over six hundred different policy metrics, hundreds of different performance metrics and almost one hundred governance key metrics.

Finally, the results were analyzed, and weighted according to their importance. The weighting was defined by the most crucial sustainability challenges of each industry. The industries were analyzed through the core pillars, including the environmental, social and governance aspects. The first pillar related to the environmental matters included the climate change impacts, use of natural resources, potential environmental opportunities and pollution and waste control. Related to the social aspects were the human capital, product liability, stakeholder opposition and social opportunities. In governance analysis, the analysis focused especially on corporate governance and corporate behavior.

Service provider 2's view was that the weighting had been the best way to ensure that the comparability between different companies between companies from different sectors could be achieved. Eventually, there were over thirty other final issue scores, which were evaluated together with the weightings, and through this the ESG ratings from AAA to CCC were formed. The customers were also offered the possibility to separate the metrics in order to analyze each letter of the ESG separately. For Service provider 2's clients, all this information was available through a website platform in exchange for a monthly fee. It became clear that because the sustainability reports and the ESG ratings were the core business of Service provider 2, they had put a lot of effort in using the available data as carefully and in-detail as possible.

The last interviewee from the interview group three, was the Service provider 3, who had focused on credit rating of companies. According to him, their process of rating a company's financial instrument focused on the evaluation of the company on five different areas: credit quality, legal and regulatory risks, payment structure and cash flow mechanics, operational and administrative risks and counterparty risk. The credit quality included analyzing the company's defaulting possibility in case of financial hardship or stress. However, this type of analysis did not have a direct connection to the CSR reports. The situation was similar when analyzing the payment structure, cash flow mechanics and the counterparty risks.

However, the regulatory risks and the operational and administrative risks were highly related to CSR disclosures. The legal and regulatory risk reflected the risks that could possibly have a direct impact on the solvency or the liquidity of the investee. According to Service provider 3, swift changes in local legislation such as the environmental regulation could potentially have a significant impact on the company's solvency ratio, if the company's operations cause heavy environmental damage. Yet, Service provider 3 did not believe that the environmentally related risks were included in the credit ratings, and therefore purchasing additional ESG rating services from other service providers was considered fairly reasonable.

Concerning the operational, counterparty and the administrative risks, Service provider 3 brought up an ESG related example. If some of the direct investors had decided to use the exclusion approach, through which their investment universe had been narrowed down, they would not have been able to add any more certain type of securities leading to a decrease in the demand. This would have then affected negatively on the liquidity of the paper, valuation of the company and its cost of capital.

Still, Service provider 3 did not think that the CSR disclosures for them held a great amount of value. In his point of view, the credit rating agencies were extremely conservative in their rating practices and only applied such information, which for sure could have a negative impact on the company's creditworthiness. According to him, this was something that perhaps in the future could be developed inside the credit rating agencies. Yet, it seemed unfortunately unclear, and even scary, that the Service provider 3 was not fully able to answer the question of which variables were actually integrated into the credit ratings, and which were still unaccounted for.

6.3 Investment Management

Investment management focuses on dealing with those investment management issues, which take place after the investment has been conducted. Depending on the type of financial institution, the applied tools vary between the direct investors, investment banks and the financial service providers. In this chapter, I examine the practicalities that were applied among the three interview groups, and how these applications reflected back to the potential benefits of CSR disclosures.

6.3.1 First Interview Group

Once the investment decision had been done, it was important to notice that this decision was not necessarily final and changes to the asset ownerships, in case necessary, could have been done. The first interview group clearly indicated that in case the company failed to cope with the after-trade demands set by the investor, there existed a possibility where the investor would liquidate his ownership in the company. As was explained by Investor 1, there had already occurred a real life example, where they had decided to liquidate the share ownership, because the firm had failed to meet the environmental requirements set by the investor. However, only Investor 1 had applied the liquidation of the financial assets in practice, because Investor 3 and Investor 4 had not considered this method as an effective tool.

In monitoring the sustainability of their investments, Investor 1 and Investor 3 used third party provided services, such as the online platform produced by Service provider 2. This platform offered them an excellent possibility of monitoring the companies on multiple different areas, such as all three aspects of ESG. For these investors, it was possible to order direct email notifications in case some companies had had their ESG ratings downgraded. Those companies that had been barely accepted to the Investor 1 and Investor 3's investment universe, had been notified as cautionary, and were under special surveillance. In practice, in Investor 1's organization, this meant that in case the asset managers wanted to invest in these companies, a special request for permission was required. In case the companies were downgraded, the asset managers had to discuss the situation and the risk recognition with the head of responsible investment.

In Investor 1's organization, the team responsible for monitoring the ESG ratings included two people, who were responsible for the analysis of the entire portfolio, including over 30 billion in assets. This seemed like an extremely large amount of work, considering that in Investor 3's firm, the asset managers were all responsible for the sustainability of their own portfolios, and the training of employees had clearly been focused on the portfolio managers. Therefore, the sustainability monitoring of the corporations was primarily the portfolio manager's' job, who was supported by a separate team of ESG analysts. Investor 4 had had a core team from their personnel trained for ESG analysis, including people who had worked in risk management and directly as asset managers.

It became obvious that the more sophisticated was the system that had been implemented the more personnel were required in order to manage the process efficiently. It also appeared that the high amount of personnel seemed to correlate positively with the investor's capability to form a realistic picture about its investees' ESG exposure.

The most commonly recognized policy, which guided both the Investor 1's and Investor 2's operations, was the ownership policy. This policy was used in defining the investor's relationship with the investee and it guided the organization's approach on engaging the investees. According to the policies by Investor 1 and Investor 3, they committed themselves to participating in shareholder meetings and in using the voting rights posed to them through the share ownership. The policy acted as an important tool for the investor, through which they could monitor how well the corporate management succeeds in meeting the demands of varying groups of different stakeholders and the shareholders, and it offered them a possibility to ask the management direct questions related to their company's CSR performance.

Investor 2 had a different approach because of their quantitative investment strategy. Instead of using plain third party ratings, they also conducted in-house ESG ratings. The long-short strategy meant that the investor targeted at purchasing those companies' securities, who had an excellent ESG rating compared to their peers, and at the same time, the investors would have sold short the securities of those companies, which posed poor ESG ratings. Investee 2 elaborated further by describing how this meant that the market positioning of Investor 2 could potentially change with the altered ESG ratings extremely quickly. Overall, Investor 2 had decided to focus more on monitoring different in-house selected indicators, which were chosen because of their ability to describe the current investment strategy's key indicators the best.

6.3.2 Second Interview Group

The main purpose of the second group considering the investment process was to provide the direct investors with as detailed information related to their investment analyses as possible. In practice, Investment banker 1, 2 and 6 had noticed a clear demand from their customers' side to produce such information, which could have at least offered the customers information related to thematic investment opportunities. In other words, their clients had indicated an interest towards investing capital in a more sustainable manner. However, Investment bankers 3, 4 and 5 had not experienced such demand from their customers. Therefore, they had not yet implemented any kind of processes, through which the potential value related to CSR disclosures could be transferred to their clients. Somewhat the statement from Investment banker 3, Investment banker 4 and Investment banker 5 felt strange, because the investment banks often served similar clients.

How Investment bankers 1, 2 and 6 had decided to assist their clients in monitoring their ESG exposure was through ESG reports, thematic sustainability reports, and through including the CSR related risks more thoroughly in their traditional investment analysis reports. The ESG reports focused only on the environmental, social and governance factors, which as described by Investment banker 1, had experienced a vast increase in demand. The thematic reports were the most common publications by those investment banks, which had decided to use the CSR data. Through these, they had targeted at offering their clients the possibility of screening certain industries, or companies through pre-defined themes such as climate change. These types of reports were published by Investment bankers 1, 2 and 6, and even by Investment banker 3, who however admitted that they had failed to utilize the full potential of the CSR disclosures and their benefits, even though such reports were published. According to Investment banker 2, there were still a lot of things they could offer their customers, especially when it came to a more careful ESG risk analysis.

As the research showed, even those investment banks that had decided not to systematically take advantage of the CSR disclosures, understood the need for such. For example, Investment banker 3 admitted that they had even tried to utilize the reports with poor level of success. During the preliminary interview with Investment banker 4, he told me that he was surprised, when the answer regarding the question if the CSR information had been taken advantage of in any forms in his organization, turned out to as negative. He continued by saying that he had personally noticed a significant change in the market practice of the type of non-financial information that the customers had demanded from their investment banks. Yet, in Investment banker 3's, Investment banker 4's and Investment banker 5's organizations these demands remained still unanswered.

6.3.3 Third Interview Group

All three financial service providers operated through online platforms or software, through which their clients were able to access the ESG data against a monthly or annual subscription fee. Through these services, the customers were able to monitor the changes in the corporation's sustainability rating and react accordingly. The monitoring service included the use of several key performance indicators, which the investors could use in order to supervise the progress of their investees.

Service provider 2 emphasized the importance of developing their services according to the changes in the demand of the customers. The competition within the industry had increased and this had also acted as an important driver for increasing the service quality of the service providers. The role of Service provider 2's business in relation to the ESG monitoring tools used by the customers were recognized as important, because most of the clients applied the ESG ratings directly to their investment decisions.

However, the role of Service provider 1's organization differed. When discussing about to which extent were the CSR related risks accounted for in the credit ratings of companies, the interviewee replied by saying that it definitely was a gray area. He could not say with one hundred percent accuracy, which issues were included in the ratings, and which ones were not. Yet, the Interviewee did not directly admit this, and this had to be interpreted from indirect implications such as:

> "If the company credit score had efficiently accounted for all of the CSR related risks, this could have led to a situation where the double-pricing of certain sustainability related risks would take place, if additional CSR analyses had been used."

What Service provider 1 tried to indicate was that they supported the use of external ESG services, even though some of the included risks might have been accounted for in their credit ratings. However, through the use of these services, especially concerning the governance side, there existed a possibility of risk double pricing. The business operations of the company defined the extent of the double pricing problem. If the operations withheld significant ESG risks, the double pricing became a much more serious issue, than among those companies whose operations did not pose such a high ESG risk profile.

7 CONCLUSION AND DISCUSSION

This chapter focuses on discussing the research findings and analyzing them further. It is divided into two main chapters, which focus on discussing first the observations related to the applicability of the underlying theories and second the findings on the benefitting practice among the European financial institutions. The discussion findings are discussed in groups of three, where the first group includes the direct investors, the second the investment banks, and third the financial service providers.

7.1 Stakeholder Theory

The first interview group strongly considered the stakeholder theory as a plausible, but not self-evident factor explaining the existence of CSR disclosures. According to stakeholder salience, the direct investors had been ranked high in all three aspects of the definition. Overall, this had led to their high positioning in the overall hierarchy of different stakeholders. Despite this, the direct investors, in their own opinion, appeared extremely flexible considering their needs and positioning.

The investors did not consider themselves as the main target for the disclosures. Actually, the direct investors could not precisely tell which stakeholder group was considered as the main target group. Also for the investors, the main driver behind the publication of CSR disclosures appeared unclear. The investors did not have the appropriate processes in place so that they could have maximized the benefits from the published disclosures, and this was partly used in explaining why the demand for such disclosures had not been set from the investor's side. During the interviews, all four emphasized the fact how they were not the primary users of the information related to CSR disclosures. However, it seemed like this explanation was only applied in order to put the pressure on other stakeholder groups and to reason out the inefficient processes.

The investors clearly understood their importance as the group guiding the management's behavior through indirect channels such as the third party service providers, whose services all of the three organizations used. However, this raised a question of a possibly existing vicious cycle where the investors do not directly use the data disclosed in the CSR reports because it requires a lot of work, and handling the data will never require less of work, because is no direct demand from the investors' side to change the current reporting practices. In other words, using third party service providers seemed to have confused the communication between the investors and the companies. It was no longer clear for the reporting companies, which request for information came directly from the investors, but only through third parties, and which were only requests of third parties. Yet, the direct investors did not consider this as a problem.

Another recognized issue was that because the investors used third party provided services, they did not consider it important to encourage companies to report according to coherent frameworks. It seemed like the interest towards this was decreased by the third party services. Additionally, decoding the contents of the different CSR disclosures were clearly considered as the third parties' job. Actually, the investors could not clearly tell the value differences between different reporting types in relation to their ease of use. Last, one of the interviewees added that perhaps the corporations should reconsider the way the most important stakeholders were defined so that the indirect communication between the investors and the investees could be improved and better understood.

Despite what had been presented by the first interview group, the second interview group considered the main target of the disclosures to be the corporate customers. However, the investment banks agreed that the main purpose of the CSR disclosures was to raise awareness and decrease the information asymmetry among all stakeholder groups. The risk management perspective was also emphasized. Even though most of the interviewed investment banks had used the CSR disclosures, they did not consider themselves to be in a position where they would be able to set demands related to the reports for the corporations.

The third interview group considered themselves as an important group of stakeholders, who the companies should have definitely accounted for when planning their CSR strategy. Despite this, they had also felt like their needs have not been met in full. However, this seemed obvious, because the ESG products added a significant amount of value to their businesses. It was clear that anyone whose business was even a bit dependent on the disclosures, would rank himself higher than average when defining his importance in relation to other stakeholders. Therefore, it was hard to recognize whether their feeling of depreciation was real or mainly driven by their business.

Overall, there was confusion about for who were the disclosures mainly targeted at. Generally speaking, the main target of the disclosures seemed to be continuously someone else than the interviewed organization, and it seemed that there was always someone more important than the current interviewee, when the stakeholders' needs were prioritized. It seemed like some of the interviewees were too ashamed to admit that some of their processes might have not been fully developed, especially if they, at the same time, would have been forced to admit that they had been one of the main target groups for the CSR disclosures. Gladly, this did not apply for all of the interviewees, and some of them were fully honest about their stages of development.

7.2 Shareholder Theory

According to shareholder theory, only those disclosures with a positive net impact on the company's valuation were produced. The investors were all certain that the existence of CSR disclosures did have intrinsic value. However, it became clear that all four of the investors were focused on the different aspects of value that appeared in the disclosures. As an example, Investor 1 had focused clearly on public relations, Investor 2 on applying the data in order to create financial alpha, and Investor 3 and Investment banker 1 on managing the ESG related risks.

A common issue, which was brought up in some form during all four interviews, was the need to understand the CSR related risks better. There was also a common understanding that because producing the reports was costly, they had to be beneficial for at least some of the core stakeholder groups in order to exist. For me, it appeared that the CSR disclosures did pose positive value, however how this value was distributed was not necessarily equal. The value experienced by those investors who had also participated in the costs of reporting, was not necessarily higher than the relative financial value they had lost when the reports had been produced. Yet, because of the CSR reports' unequal value and cost distribution, the disclosures' impact on individual investor's corporate valuation varied. Additionally, this unequal value distribution did not entirely block the shareholder theory as at least a partially explaining factor behind the reports.

The investment banks were deeply concerned about the net value of CSR disclosures. In their opinion, it was important to evaluate not just if the value of the reporting exceeded its costs, but also how much it cost for the investor to implement those processes, which could then be used by the investor to gain benefit from these reports. I considered this as a good point, because without the presence of such processes, the reports did not pose value for the investors, because the information they contained could not have been utilized.

However, the value experienced by the financial service providers through the reports was something that had in their opinion, definitely had a positive impact on how the company was valued in their organizations. Still, by not participating in the costs of reporting and still being able to enjoy its benefits, the group of financial service providers was a seemingly biased interview group. They did not want to consider the disclosures as reports, which were only produced in order to benefit the shareholders in the form of an increased market value, but rather as something that benefitted every stakeholder group even beyond shareholders. Further on, the disclosures were understood to contain informative value, which should have been appreciated by both shareholders and stakeholders.

For me, this ideology was easy to understand and agree with. It did not make sense to treat companies as separate entities, which only produced value for a single stakeholder group. Imagining that there existed no value spillover between different shareholders, felt also hypocrite. The valuation processes among different organizations were all different, and the different analysts had also their individual ways of measuring the company value. To conclude, judging whether the shareholders experienced enough value to evaluate the applicability of shareholder theory was challenging. It seemed that the theory was fully applicable, but could not be treated as a plain explanatory theory.

7.3 Legitimacy Theory

Clear references to the legitimacy theory were already visible in the early parts of the research, when the interviewees commented on other, such as the stakeholder and the shareholder theory as explanatory theories behind CSR disclosures. Despite the confusion that had earlier been brought up about the main target group of the CSR disclosures, the legitimacy theory was still agreed by the first interview group to be the most applicable theory of the all three presented during the interviews.

For the disclosures, the local legislation was understood as the standard framework, which impacted on the companies' willingness to publish CSR reports, even though two of the interviewees described how the legislative framework as a guiding factor had actually led to a worse level of CSR, than what had resulted, if it had been conducted on voluntary basis. However, achieving legitimacy did not only mean that the legislative requirements should have been met, but what was considered to be CSR, was only those actions, which exceed the legislative requirement. All of the interviewees agreed in unison that in order to achieve legitimacy, the corporations had to disclose more than just financial data. This would have then decreased the information asymmetry, and would have enforced their legitimacy in their surrounding environment.

Both the investment banks and the financial service providers agreed that through producing the CSR disclosures, the companies for sure served their different stakeholder groups, and this way improved their legitimacy in their operational environment. It appeared that once again, all three interview groups considered the CSR disclosures important for someone, but they did not see themselves as the main target of the reports. Legitimacy theory was understood as the best theory, which could be applied in order to explain the existence of CSR disclosures among companies. Still both the main target audience and the produced value seemed to remain uncertain among the interviewees and it appeared that the cultural backgrounds played an important role in both the defining of the type of legitimacy demands set by the different stakeholder groups and in defining the most applicable theoretical framework considering the existence of CSR disclosures.

To conclude, the interviewees could not for sure tell why the disclosures existed. Yet, it became clear that none of the interview groups recognized themselves as the main target group and they were not aware of the fact how the companies actually wished the interviewees to make use of the CSR disclosures. Still, the existence of reports seemed to be required and the consensus was that the companies were better with, than without them. In my opinion, the situation was well described by Investment banker 1's statement, where she commented that even though her company did not recognize itself as the main user of CSR related information, by not publishing the information related to sustainability performance, the company clearly sent a negative message to its stakeholders. This would have then led to further questions among stakeholders, shaking the legitimacy balance. Therefore, a clear sign of an existing legitimacy demand, which included the disclosing of corporate social responsibility data, seemed to be present.

7.4 The Investment Process

In this chapter, I am going to discuss the findings related to the investment process, and how the different European financial institutions took advantage of the CSR disclosures. This includes analyzing the findings in three parts: during the normative framework, the investment analysis and the investment management. The purpose of the study was to examine the practical solutions for taking advantage of the CSR reports among European financial institutions. It was researched through interviews, which were conducted with three different types of organizations so that the practices among different types of institutions could be examined.

7.4.1 Normative Framework

The findings related to the normative frameworks, which guided the investor's investment decision in the first phase of the investment process were mixed considering the first interviewee group. Investor 1 had decided to use the responsible investment approach of investment exclusion, which predefined their investment universe by excluding companies based on a set of predefined criteria. The criteria reflected the core values of Investor 1's organization, and further the values of their customer's. However, Investor 2, Investor 3 and Investor 4 had chosen a different approach, where the investment universe was strongly influenced by the ratings the companies received from the ESG data providers and no direct value exclusion had been applied.

Three out of four of the in-question interviewees managed other than personal capital, which originated to the investors' customers. I thought of this as a challenge, because when the ESG ratings were used as an absolute measure defining the interviewee's investment universe, the exclusion was based on the values of the service provider, not of the customer's.

Additionally, Investor 1 was the only interviewee, who had implemented some sort of an auditing process related to the third party information. The rest of the interviewees assumed that the data was continuously correct, without checking it in any ways. The inconsistency of data had also been the main driver for the second interview group why those who had used the CSR disclosures, had decided to not use the third party provided data in their analyses. Investment banker 1 had found several errors related to this data, and because of this using the data had seemed futile.

Overall, the practices among investment banks were diverse. Some interviewees had considered using the data disclosed in the CSR reports as worthless, when others had dozens of people working with the ESG analysis. However, the role of investment banks in defining the normative framework was to provide the investors with supportive analysis related to ESG. Investment banker 3 even suggested that those investment banks, which had the most efficient processes in place, could already start competing against the third party service providers in producing the ESG data for the investors. However, most of the interviewees considered it too early to discuss such a thing.

7.4.2 The Investment Analysis

All four of the direct investors had clearly implemented some sort of processes, which all took advantage of the CSR information. Some of the interviewees had decided to use third party service providers and their data in conducting the related analysis. Most commonly, the approaches were related to responsible investment, which included several different approaches including the best in class approach, investment exclusion, positive screening and negative screening. However, multiple practices through which the responsible investment was conducted seemed to exist.

Concerning the first interview group, it seemed that the group relied heavily on third party services. The materials provided by Service provider 2 showed that the analyses that had been used, for example in Investor 1's organization, were in fact quite straightforward and could have been replicated in-house with a small amount of work. This could have led to significant cost savings, because the coverage of the purchased service package could have been decreased. According to the interviewees the pricing of the third party products was an important factor when defining the benefits of the third party services, because the costs related to this data feed were told to be relatively high.

However, some of the analyses included multiple different phases and variables, which required expertise beyond traditional investment analysis. Paying for such expertise did make sense in the short term, but when it came to long term planning and strategy, it appeared strange that instead of implementing the capabilities to analyze the CSR disclosures through for example implementing data feeds, or macros, the investors had decided to rather pay for an outsider to do the job. I first thought that the motivation for such must have been linked to the contract terms between the investors and service providers, but according to what I was told, these contract terms between the investors and service providers were in-fact short. It therefore must have been the investor's own choice to be fully dependent on the service providers in the long term.

Additionally, I indirectly discovered that some of the investors had been facing extremely tight cost restrictions and for accounting reasons, it had looked better when the costs had appeared as the purchase of external consultancy services, than as increased personnel costs.

Another explanatory detail was the way the responsibilities had been set in case mistakes were to occur. I discovered that what people seemed to be scared of, was making mistakes related to CSR analysis. In some of the interviewee's organizations, this fright had significantly limited their possibility to develop their business. However, for most of the financial institutions, being wrong seemed to be perfectly acceptable, as long as it happened in the presence of best available information. This fact was highlighted when the investment banks pointed out the vast amount of mistakes that had been discovered in the CSR and ESG reports, and later again, when other interviewees brought up the aspect of risk management.

When evaluating the professional confidence, I combined these observations with the fact how none of the people I interviewed, had an actual background in sustainability, or environmental matters. I thought that this could have also influenced negatively on the employee's confidence related to CSR issues, and further on their willingness to analyze companies in the presence of insufficient professional capabilities. It appeared that through the outsourcing of the data analysis, the investors tried to target at outsourcing the risks of failure.

How the problem with the lack of professional confidence could have been sorted out had been through increasing the resources of the in-house ESG analysts. Conducting the analysis was, according to Service provider 2 who worked for a service provider, a lot of work, and finishing a single case could have potentially taken anything from several hours to days, depending on the case. In cases such as the Investor 3's, where the asset manager was held responsible for a portfolio reaching up to hundreds of millions of euros, it would have been impossible to analyze the investee companies all individually. I am not suggesting that all of the analysis, which was conducted externally, was futile, but instead that the in-house knowledge on corporate social responsibility could have been increased with fairly little amount of effort.

This led me to another important point, where the investors seemed to be all fully dependent on the third party provided data. Not only did some of the investors use this data as a base in defining their investment universe, but some investors even applied this to investment strategies, such as the long-short strategy by Investor 2, and were willing to invest their entire portfolio based partially on this information. It seemed quite risky considering that when interviewed, only one of the direct investors was actually aware of the technicalities behind the ESG ratings. Again, these risks could have been decreased through increasing the in-house knowledge. It seemed like several improvements could have been conducted, if more resources had been focused on the training of employees or the asset managers.

This then made me rethink what had already been brought up before when analyzing the applicability of the shareholder theory: if the CSR disclosures had been considered to hold a greater amount of value, perhaps more resources would have been allocated in order to make the processes more efficient. Overall, if the CSR reports were seen to provide the investors with no, or only little value, increasing the amount of resources had not seemed like a reasonable thing to do to.

Despite the high level of polarization among the investment banks, those who had decided to use the CSR disclosures as part of their investment analysis had made a clear choice of conducting the analysis in-house because of the observed mistakes in third party data. They considered the CSR disclosures as their primary source of information when it came to measuring corporate sustainability performance and those investment banks that had decided to conduct the ESG analysis in-house, had managed to build strong knowledge network around evaluating the corporate sustainability performance inside the different companies. These banks were confident that they were able to attract skillful labor, even when it came to recruiting CSR professionals, and therefore the third party analysis was not considered as important, as it was among the first interview group.

The large scale of different reports, which were produced inside the investment banks were targeted at improving the services offered to the banks' clients. However, these processes were still not mature, and they were to be developed further in the near future, because some of the investment banks' methodologies and evaluation criteria were still in their testing phases. In fact, most of the development-stage-projects were yet invisible to the customers. Therefore, as Investment Banker 1 explained, these analyses had not yet been marketed in full.

The resource allocations within the interview group varied a lot. However, the differences within the group were far clearer than among the first interview group. Some of the investment banks had decided to allocate zero resources into analyzing the CSR disclosures, when others had a team of dozen working with the disclosures and the CSR related data. However, the processes among those investment banks, which took advantage of the disclosures, were clearly sophisticated. The understanding of how the CSR information should be used in investment analysis differed from the interview group one, because the interview group two considered themselves as a supportive functionality to traditional analysts. They did not consider it reasonable to use the CSR related data in defining investor's investment universe. For example, Investment banker 6 stated that the ESG analysis had been taught to all of their credit analysts, who all were held responsible for understanding the risks related to CSR.

Understanding the ESG analysis as a supportive functionality had also helped the investment banks in avoiding conflicts related to employee's conception of CSR. An investment bank interviewee gave an example of how some of their employees had not been eager to accept the ESG criteria as a primary investment strategy, but when the aspect of risk management had been brought up, the analysts had become a lot more open minded to the idea of how the information could be taken advantage of. Some investment bankers even saw the CSR information as a threatening factor to traditional investment analysis and they were clearly positioned against the use of ESG data.

Through the interviews with those investment bank representatives who had made a clear decision to not utilize the CSR information, I was able to observe how some of them continuously denigrated the value related to CSR information. Most of them explained how the value had not been fully recognized and how taking advantage of the reports required vast amount of resources. They clearly tried to defend their post and find explanatory reasons for why the information had not been utilized. When I asked if they had ever wondered why the CSR disclosures existed in the first place, the most common answer was for plain public relation purposes.

All in all, a clear polarization between banks existed. Some banks had allocated a lot of resources so that the data behind the CSR disclosures could be mastered, when others had decided to dismiss the data as something that did not produce enough value for the investment bank to be utilized. However, those banks, which had decided to support their traditional company analysis with the team of ESG analysts, clearly had more sophisticated systems in place than the interview group one. Still, some of these teams only took use of such disclosures as the GRI in order to maintain the high level of comparability within industries and between companies.

Considering how the benefits from the CSR disclosures could have been utilized at maximum, the financial service providers played a crucial role because from the first interview group, all of the interviewees had applied methodologies provided to them by third parties. They used the available data in order to calculate a various set of different indicators and to form ESG ratings. It was clear that the ESG ratings could not be easily replicated, but the indicators that were used, were rather simple. It came to me by surprise that none of the direct investors had utilized any kind of indicator calculation themselves, even though all of the required data was already in there inside a financial service platform, which was widely in use among all of the investors. Next, I will discuss this issue further.

7.4.3 Investment Monitoring And Management

The biggest finding in the research was that the direct investors were investing significant amounts of capital on annual basis in order to pay for the analyses conducted by third party service providers. These analyses were used in both the company analysis and in investment monitoring and risk management. However, taking advantage of the CSR disclosures did not necessarily require an in-depth expertise or such services, and the applied indicators could have easily been accessed even without the third party provided services. It is important to notice that the CSR reports are public documents, which are accessible for everyone. Therefore, benefitting from these does not necessarily have to go through a third party.

As an example, Investor 2 used a long-short investment strategy, which relied fully on the third party provided data, even though they did not use the direct ESG ratings offered by third parties. However, this kind of long-short investment strategy could be replicated in a simplified form through choosing a set of indicators, which for the investor were the most important and matched their corporate values. These could have included indicators such as CO_2/revenue, CO_2/profits, litigation costs/profit or water waste/revenue. This could have offered some the investors an alternative way of monitoring their investments and investing their capital responsibly. Taken further, this could have been mixed with such responsible investment approaches as best in class, where the companies could use a pre-determined set of criteria in favoring certain corporations with, for instance excellent environmental performance.

Another point why this could be an excellent choice, would be because the companies had been able to operate independently, free from third party service providers. This way the companies could be able to conduct corporate monitoring, and they would be able to build and withhold the professional understanding of sustainability related performance and indicators in-house. Evaluating the validity of the data would have also become easier, because of the existing understanding over the technicalities behind the data.

Yet, in order for all this to happen, resources would be required, which on the other hand would not be available unless the full potential of the CSR disclosures had been recognized throughout the financial institutions. Last, I have summarized the most important findings to Table 3.

7.4.4 Final Words On The Benefits of CSR Reports

According to the earlier research, the benefits of corporate social responsibility disclosures remain uncertain. Campbell et al. (2001), Bloombfield (2002) and Feng et al. (2015) have all shown how efficient CSR reporting can result in a decreased cost of capital. Yet, Reverte (2009) and Hassel et al. (2005) failed to discover a positive correlation between the corporations' sustainability performances, the companies' market values and their leverage ratios. My research findings partially explain the confusion among the field. Those practical approaches, which have been implemented in order to utilize the information disclosed in the CSR reports, vary significantly throughout the European financial institutions.

It appeared that the value experience was highly dependent on the interviewees' ability to utilize the information. Another important factor seemed to be the resource base, through which the quality of the information could be audited. Feng et al. (2015) suggested that the value reflected in the corporate social and environmental disclosures was highly related to the information's ability to decrease the information asymmetry. This seemed to hold true, but the opinions between different interviewees varied, because not all of the financial institutions would have preferred the same type of information.

According to the studies by both Wahba (2008) and Schadewitz & Niskala (2010), the standardized frameworks such as the GRI and the ISO14001 added both value to investors. Our findings suggest, that this phenomenon might have been caused by the standardization of information, and it might not be standard dependent. In other words, any information that would be reported in a standardized form could produce value for the investors. Implications of this were clearly present when every interviewee in the interview group 1 mentioned the incoherency of CSR data as a significant challenge. The companies could therefore target at reporting their CSR performance according to industry practices in order to achieve transparency, comparability and the usability of the data.

Schadewitz & Niskala (2010) also suggested that the CSR disclosures acted as an important risk mitigation tool for the investors. In my research, this finding seemed to be true in the case of investment banks, instead of the direct investors.

The investment banks had clearly focused more on the risk management perspective than the other interview groups, because its value could be easier to both quantify, and through this, to market to their customers.

The responsible investment approaches presented by Hyrske et al. (2012) had been well adopted by the direct investors, who all had decided to use a varying set of responsible investment approaches in their investment activities. However, it was extremely positive to notice that these basic principles had not only been adopted as they were, but that the investors had learned how to modify these approaches to match their individual needs and values.

Last, Hahn (2013), Reverte (2012), Erragraguy & Revelli (2015) and Campbell et al. (2001) all mentioned that the CSR disclosures posed at least some level of intrinsic value. This meant that the CSR reports held an undefined type of value as they were. This ideology was something that my research findings confirmed. All of the interviewees agreed that the CSR disclosures did hold value as they were, even though the type of value could not be clearly defined, and in spite of the fact that the type was often defined through the individual's value experience. For example, even though not all of the investment banks had decided to utilize the disclosed information, they still well understood why other banks had decided otherwise. Additionally, none of the interviewees considered my research pointless, which further confirmed the need to decrease the gap between the investors and the CSR disclosures.

Table 3 Summary of the research findings

	The first interview group	The second interview group	The third interview group
Normative framework	-The normative values were applied indirectly through responsible investment approaches via third party data -This data was provided to the investors by the third interview group -The data provided by also second interview group could also be used in the future, but was yet not done so by the first group -One of the investors used the data as an absolute investment criteria -Overall, the group felt like more resources would be needed, in case the data related to the CSR disclosures would have to be better taken advantage of	-No practical applications to normative framework -The purpose of the second interview group was to support the first group by providing them with data and analyses related to companies' CSR performance -Some interviewees wanted to reflect their value base through their investment activities, but by using third party provided data, the value base reflected in investment activities was decided by the third parties	-The role of the third interview group was significant, because they supported the first interview group by providing them with data related to the CSR disclosures -There was a clear dependency between the first and the third group
Investment analysis	-Individual responsible investment approaches were applied such as best in class approach, positive screening and negative screening -These approach applications were implemented through the third party provided data. -One of the investors had applied ESG ratings to support investment activities and another one conducted long-short investment strategy based on these ratings -Investors were still cautious about using the CSR data directly, because of its inaccuracy -The views on the information that was considered as useful by the investors varied significantly inside the interview group	-High level of intra-group polarization: some of the investment banks had large groups working with the CSR disclosures, when others had made the decision to not utilize the information at all -The data that was produced by the utilizing parties included sectoral analyses, thematic investment suggestions and ESG reports which were further distributed to clients -An interviewee even suggested that this data could some day be used in replacing the data produced by third parties -One of the investment banks had integrated the ESG data into its credit research activities -Risk management perspective was emphasized	-The significance of the third interview group was emphasized when the third interview group provided the data to the first interview group -The transparency behind the used data remained uncertain -The interviewee who produced data for investors was not aware of its big responsibility -Used the data disclosed in CSR disclosures in order to construct reports -However, the data was not always comparable because of the vast amount of different types of CSR reports that were used as sources
Investment monitoring	-For most of the investors, investment monitoring took place through the ESG ratings provided by the third parties -This monitoring was conducted in order to dynamically evaluate the appropriateness of the companies in relation to the investors' investment universes and in order to evaluate the sustainability performance of the companies -One of the interviewees actively monitored the changes in these ratings, and had based their positioning in the financial markets fully on these ratings -The investors applied different excel spreadsheets, online platforms and key performance indicators in investment monitoring	-The second group provided the investors with research material related to ESG issues -However, because of the high level of polarization, this was not done by all of the interviewees, and few had recognized the CSR reports as something that did not provide additional value to their customers -The clear focus of the investment banks was on ESG related risk management -The full utilization of these reports had not yet taken place, and some of them were used only for internal purposes (not distributed forward)	-The data by the third group was actively used by investors in investment management and monitoring -The group had clearly implemented the most sophisticated systems related to benefitting from CSR reports

8 RELIABILITY AND VALIDITY

The credibility of the research can be evaluated through its reliability and validity. This can be utilized through analyzing the appropriateness of the research method and the interpretation of the achieved results. The purpose of measuring internal validity is to examine if the chosen research method serves the purpose of the study, and if the level of relevance concerning the concepts of the study is sufficient. When measuring the research's external validity, the generalizability of the research concept is evaluated (Krippendorff 2004). In measuring research validity, Tuomi & Sarajärvi (2009) have used terms such as credibility, transparency, consistency, certainty, dependency, enforceability and conformability.

According to Kirk & Miller (1986), the reliability of the research can be defined as the possibility of being able to repeat similar results through the same research method. In other words, the research results should not be researcher dependent. Additionally, reliability includes the aspect of research objectivism, which refers to the researcher's ability to examine the results objectively, and only through truly existing causal relationships. In relation to objectivism, the researcher should be able to choose between different interpretation methods in order to form an honest picture of the measured phenomenon (Tuomi & Sarajärvi 2009).

8.1 Evaluating The Research Method

Tuomi & Sarajärvi (2009) argue that an in-depth description of the conducted research is the key in improving the research's reliability and validity. Reliability and validity should be addressed in all kinds of researches, including those, which have applied qualitative methods. However, in qualitative research, assessing the research's validity is harder than in quantitative research, where testing the robustness of the research is easier through numbers (Hirsjärvi et al. 2009).

The purpose of this research was to first examine how the existence of corporate social responsibility reports was reasoned out by European financial institutions and then to examine the practices through which the benefits related to CSR disclosures were taken advantage of. Attempting to gain an understanding related to a certain phenomenon is a common characteristic of a qualitative research (Tuomi & Sarajärvi 2009). This led me to different qualitative research methods from which semi-structured face-to-face interview and email interview were scoped down as the two last alternatives. The main issue influencing this choice was the descriptive nature of the research questions, which meant that the interviews could not be interpreted efficiently through any other forms of research. Further from the two alternatives of email and face-to-face interviews, the main benefits of cost and time efficiency, as presented by Meho (2005), led to the decision over email interviewing.

The time efficiency was an extremely important factor when deciding on the research method. Most of the European financial institutions operated from London, which would have made face-to-face interviews extremely hard to conduct. Another thing to consider was that the people with the right titles and corporate positions were commonly extremely busy. However, because of the summer the interviewees seemed to have a bit of extra time at their hands, which they were more than happy to spend being interviewed via email and instant messaging functions.

Another thing that added to the research reliability was the data auditing method, which I applied in the research. If the interviewees told me that they produced reports for their clients, or that they provided their customers with an online platform where the related information could be found, I requested either an example report, or a temporary access to their platform. Additionally, the interviewees voluntarily offered me a large amount of material, which I could use in the research in order to widen my scope of understanding beyond the interviews. Through this, I was able to confirm the validity of the interviews and gain answers to some technical questions outside the interviews.

As suggested by Krippendorff (2004), the concepts of the study had to be relevant to the interview questions. My interview questions were divided into four main categories: the applicability of the underlying theories, the corporate social responsibility reports, modeling/analysis and the value translation process. The questions that were applied in the interviews were all considered to be relevant to the study's scope and they helped me to answer the main questions of the research.

An issue, which might have impacted the validity of the research on both negative and positive ways, was the existing business relationship with the interviewed organizations. This impact could have influenced the research negatively, because the different sell-side interviewees could have felt that they were under a pressure to reply, despite the fact that they might have had nothing relevant to comment considering the interviews. However, they were given the possibility to stop the interview at any point. Enabling this possibility was coherent with what was suggested by Meho (2005) concerning the best practices in email interviewing. Further on, the existing business relationship could have affected the research results positively, because the interviewees might have considered the requests for information as a case of top priority, through which they could have been able to address their client's needs.

Another factor possibly impacting negatively to the validity of the research was brought up by both Service provider 1 and Service provider 2 who described how the information given to me had been considered confidential, and how I would have never received the information, in case the business relationship had not existed. Therefore, the business relationship might have influenced negatively on the other researcher's ability to reproduce similar results through same kind of interviews, even though I was admitted the right to use the information.

After the preliminary interviews, it became clear that the practices among the European financial institutions were extremely polarized. Conducting several interviews could have, for example, resulted in ten replies, which could have all been negative towards the use of CSR disclosures. This would have not led to a valid academic research. However, I recognized the challenge, and decided to use the preliminary interviews to map the ground for the upcoming email interviews so that those companies, who did not use the CSR disclosures, were recognized in advance.

In order to ensure the validity of the research results, it was important to conduct preliminary interviews. Through these I discovered how some of the financial institutions were not eager to respond to questions related to their investment processes and if they were, the answers contained mostly general level information. I decided to tackle this issue through anonymity, which was first requested by few first interviewees, and later granted to all of the respondents. The applied anonymity led to improved research validity through the increased interview openness. The same solution helped to improve the ethics of the study through respecting the interviewees' will.

Considering the consistency of the research, the primary email interviews all followed the same pattern. Yet, because of the differences between the interviewed organizations, the follow-ups went often to different directions. This caused variations in the interviews. Special attention was required so that the results I discovered could have been integrated into a single research, and that an understanding of the bigger picture of the appeared phenomenon could be achieved. Yet, being aware of the existence of such risk helped me greatly throughout the research.

My research focused only on European financial institutions, including direct investors, investment banks and financial service providers. The amount of financial institutions that operate in Europe is extremely large, and therefore my coverage only managed to scratch the surface. However, the institutions that were interviewed for the research were significant in size and extremely well recognized among other European financial institutions enforcing further the validity of the research. Still, it is worth recognizing that perhaps a bigger sample size would have improved the generalizability of the research results.

8.2 The Research Process

In order to finish the research as efficiently as possible, I began the planning phase of the research in May 2016, when the first master's thesis seminars had taken place. After getting the topic accepted by the course's lecturer, planning of the research was initiated. The research was related to the job of the researcher, and I was able to conduct the research while working. Having the existing business relationships with the institutions helped a lot, especially when trying to get ahold of the people who were responsible for the CSR related issues in their organizations. I was able to spend approximately four hours a day for the writing part, and considering the interviews, I was in continuous contact with the interviewees almost on daily basis during the time of the research. Because of the relation to my work, I was able to get in-touch with the right people pretty quickly, which saved a lot of time and trouble. The interviewees took my requests for information seriously, and urged to get me all the answers that were needed in order to finish the research within my schedules.

Unfortunately, the school lecturers were all on holidays during the time, when most of the actual work took place, and I was not able to request for feedback until they had returned in August. However, I consulted a few of my colleagues who were also writing their theses in order to receive valuable feedback considering the text and its contents. Gladly, they were able to assist me even before receiving feedback from the university faculty.

An indirect motivation to finishing the master's thesis as soon as possible came from my current employer, who indirectly request me to finish the thesis as soon as possible in order to change my contract type and job description. Master's degree was a requirement set in the organization's internal code of conduct, and therefore finishing the thesis as soon as efficiently as possible became my top priority.

8.3 Future Research Proposals

The ways the financial institutions benefit from the CSR disclosures have not been researched adequately and in order to gain an in-depth understanding on the issue, more research in this field is required. For future research, I have three suggestions. First, I propose a research with a special focus on those mechanisms and their efficiencies, which enable the financial institutions to take advantage of the CSR reports. These include the different key performance indicators and the responsible investment approaches. It could be beneficial if a comparison between different implementation mechanisms related to responsible investment could be evaluated based on their historical financial performances.

Second, I suggest that more research is conducted in the field of financial performance and the ESG ratings. In other words, the researchers could focus on finding out whether the higher ESG ratings correlate positively with higher share value. The focus could be on evaluating the existence of CSR reports through cost-benefit analysis.

Third, I suggest a case study where an investor's CSR benefitting mechanisms are updated to reflect the most efficient market practice. The research would focus on analyzing the free of charge services that are accessible by every investor, or which are integrated to those platforms, which are already used by the investors, such as the Bloomberg, or Thomson Reuters interfaces. The motivation for this study would be to reduce the level of third party dependency among direct investors.

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APPENDICES

Appendix 1. The Research Questions

1. Explaining The Existence of Sustainability Reports

1.1 How do you see the relationship between the existence of corporate social responsibility reports and stakeholder theory?

1.2 How do you see the relationship between the existence of corporate social responsibility reports and shareholder theory?

1.3 How do you see the relationship between the existence of corporate social responsibility reports and legitimacy theory?

If you feel that you are unfamiliar with these theories, please contact the interviewer for detailed descriptions.

2. Sustainability Reports

2.1 Does your institution take advantage of the CSR reports published by corporations?

2.2. Are these reports taken advantage of as a whole, or partially? If partially, which parts are used, and which are left disregarded?

2.3. Do you prefer a certain type of reporting? If yes, kindly elaborate why? (For example, the information disclosed through the GRI guidelines, integrated reporting or through a separate annual sustainability report)

2.4. Do you take advantage of both qualitative and quantitative information included in the reports?

2.5. Do you feel that the CSR reports provide you with value? Kindly describe the type of value you have possibly experienced. (For example decreasing information asymmetry, intrinsic value, improved risk management…)

2.6 Could you describe the team/personnel responsible for using the information? *(How many are there and what kind of backgrounds do they have? How closely are they in contact with the people responsible for investing/investment decisions/investment recommendations?)*

3. Modelling/ Analysis

3.1. Is the information related to the reports used in quantitative modelling? If yes, shortly present an example of such a model and its functionality.

3.2. Is the information applied in qualitative analysis? If yes, please describe how?

3.3. Are the credit ratings (third party provided) of the companies' included in these analyses? If yes, how do you avoid the double pricing of sustainability related risks?

3.4. Do you transform the qualitative information disclosed in the reports into quantitative data? If yes, kindly describe how this is done.

3.5. Is either of the information types (quantitative or qualitative) preferred in your analysis? If yes, shortly explain why?

3.6. What has been the biggest motivation behind using the CSR reports as part of your analysis?

3.7. Do you feel that the CSR reports are an essential part of your comprehensive corporate analysis?

4. The Value Translation Process

4.1. Please describe the process, where the value related to publishing a CSR report is translated from the CSR publication to your investment decision/analysis/recommendation. The process starts when the report is published and finishes when the released information is accounted for in your investment operations.

4.2. What are the biggest challenges you have faced in the described process?

4.3. Do you feel that the possible value translation takes place efficiently through CSR reporting, or could better results be achieved through other channels of communication?