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Deceptive Communication in Sustainability Reports

*A study of the opportunities to deceive in sustainability reports
and the consequences on stakeholders' perceptions*

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This thesis was written as a part of the Master of Science in Economics and Business Administration at NHH. Please note that neither the institution nor the examiners are responsible – through the approval of this thesis – for the theories and methods used, or results and conclusions drawn in this work.

Preface

This thesis is our final work for our master's degree in business administration, majoring in business analysis and performance management at the Norwegian School of Economics. During this last writing spree, we obtained a lot of new knowledge, experience, and academic growth.

We want to thank everyone who contributed to this thesis's content. Thanks to the MØST fund at the Department of Accounting, Auditing and Law at NHH for providing the funds needed to conduct the survey. We also want to thank our friends and family who have contributed with their opinions and supported us throughout the development of this thesis. Last but not least, a special thank you must be directed to our guidance counsellor Joel Berge for our journey this semester. We are deeply grateful for all advice and guidance you have provided. This thesis would not have been the same without you.

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Abstract

Paltering and obfuscation are two particularly enticing forms of deception as they do not contain untruthful statements when misleading the reader. This thesis studies deceptive communication in corporate sustainability disclosures and its consequences on stakeholders' perceptions of the reporting firm. Through a comprehensive literature review, we found that obfuscation and paltering are becoming increasingly more relevant forms of deceptive communication in corporate sustainability disclosures. Simultaneously, the opportunities for the better-known lies of commission and -omission are shrinking with the emergence of regulations and more sophisticated reporting frameworks. We subsequently conducted an experimental survey in Prolific, which explored stakeholder perception of deceptive communication. The survey randomly assigned the 392 survey participants to either an honesty, obfuscation or paltering condition. The experimental research design allowed us to analyse the difference between these conditions. Our main findings show that when paltering is used to deceive the stakeholder, paltering bears the most significant reputational consequence. However, paltering is an effective form of deception. In the absence of bad news, the palterer leaves the reader with a significantly better perception than both honesty and obfuscation. In addition, there are no significant differences between the three conditions in the presence of bad news. Further, there was not found any significant difference in treatment effect between honesty and obfuscating by complex language in sustainability disclosures.

Keywords: deceptive communication, sustainability report, paltering, obfuscation, stakeholder perception

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1. Introduction

Lies and acts of deceit can erode a company's reputation (Jehn & Scott, 2015). Eckert (2017) states that a firm's corporate reputation and reputational risk are becoming increasingly important. Accordingly, one could expect companies to take measures to boost their reputation. One practical way to generate a better reputation is through publishing corporate social responsibility (CSR) reports (Perez, 2015). CSR or sustainability reports intend to report on non-financial performance achieved by the corporation. However, contrary to the financial report, the sustainability report still lacks strict and comprehensive regulation regarding mandated disclosure and auditing (Pinnuck et al., 2020; Du & Yu, 2020; Martínez-Ferrero et al., 2019). Hence, concerns are rising regarding the credibility of sustainability disclosures and opportunistic reporting (Pinnuck et al., 2020).

Kurpierz & Smith (2020) argue that misreporting sustainability performance is in many ways similar to financial fraud when considering their underlying causes. They refer to the fraud triangle and conclude that it is a fully applicable tool for explaining misreporting of sustainability issues. The fraud triangle consists of pressure, opportunity, and rationalisation components. Many scholars have used it as a reliable framework for explaining the reasoning behind deceptive fraud (Dellaportas, 2013). Kurpierz & Smith (2020) argues that these are the three components necessary for deception in sustainability reports.

Deceptive communication is the deliberate attempt to mislead others (DePaulo et al., 2003) and can be characterised by its activity (Gaspar et al., 2017). Rogers et al. (2017) identified three such activities. These are lying by commission, -omission and -paltering. Another way to mislead someone is through obfuscation. This type of communication often intends to confuse the recipient by conveying complicated language. Sinnewe et al. (2021) postulate that obfuscating language can occur in sustainability reports when companies fear being perceived as omitting "bad news". However, several independent peer-reviewed studies have found a correlation between a company's actual sustainability performance and the readability of its sustainability reports (Du & Yu, 2020; Martínez-Ferrero et al., 2019; Nazari et al., 2017; Talbot & Barbat, 2020). These findings show that deceptive communication is used in different forms. Thus, they provoke questions about the consequences of different forms of deceptive communication. This question is poorly covered by previous literature, but it is essential for managers when deciding how to present reports (Perez, 2015).

1.1 Background and motivation

Prior literature shows that firms use different techniques to hide bad news (Rogers et al., 2017; Smaili et al., 2022). The phenomena of greenwashing have received much attention in previous research, and the example of the diesel gates scandal of Volkswagen could represent a form of lie of commission. Further, failing to report on material aspects is becoming increasingly difficult as new regulations reduce the possibility. Obfuscation and paltering are two forms of deception common in professional and corporate settings (Rogers et al., 2017; Sinnewe et al., 2021; Talbot & Barbat, 2020), presumably because these forms of deception do not imply any false statements. Despite the popularity, little research has investigated the consequences of deceiving through obfuscation and paltering. In addition, Perez (2015) suggests that it is too big of a gap in the literature on the link between sustainability reporting and corporate reputation.

This thesis investigates the opportunities for deceptive communication in sustainability reports and its consequences on stakeholders' perceptions. Expanding this knowledge would contribute to the academic discourse by comparing perceptions of various forms of deceptive communication in the context of sustainability reporting. Moreover, this study could also provide insight to companies on the reputational risks of using deceptive language in their communication.

1.2 Research question

To address the lack of research on deceptive language in sustainability reports, we ask this main research question:

How do stakeholders perceive deceptive language in sustainability reports?

To answer our main research question, we have established the following sub-questions:

- I. *What are the opportunities for deceptive communication in sustainability reporting?*
- II. *Compared to honesty, what are the consequences of different forms of deceptive communication in sustainability reporting?*

By answering the first sub-question, we seek to answer how the literature understands and defines the opportunity for deceptive communication in sustainability reporting. Further, the second sub-question seeks to provide insights into the consequences of different types of deceptive communication compared to honest disclosure.

We aim to contribute to the understanding of the phenomena of deceptive communication, how it can emerge in modern sustainability reports, and what reputational risks ensue when including such communication in sustainability reports by answering these research questions.

1.3 Methodology

We have divided this thesis into two parts to answer the research questions. We rely on secondary sources in the first part of the thesis to establish a robust theoretical foundation. Accordingly, we conduct a literature review of the deception- and sustainability reporting literature to answer our first sub-question. Peer-reviewed articles and relevant organizational information on the providers of reporting standards, frameworks and principles are comprehensively studied. Consequently, we establish the grounds for researching the topic-relevant deceptive activities.

Based on this theoretical background, we subsequently apply a quantitative research approach to explore the consequences of relevant deceptive communication strategies in sustainability reports. By basing the experiment on the findings in the literature review, we ensure that the experiment is both relevant and can effectively answer the research question. The second and third sub-questions will thus get answered in this portion of our master thesis.

1.4 Relevance

Although both obfuscation and paltering are pervasive in practice, little research has investigated how these communication strategies affect perceptions. Few scholars have explored the concept of paltering. Thus, a large body of the discussion is based on the same research findings. Additionally, while obfuscation is a well know and researched concept, there is little discussion about the consequences of such deceptive communication and how it compares to other types of communication strategies.

This master thesis is a part of the growing literature on sustainability reporting. Moreover, it is also a part of the deception literature, which recently also includes paltering. Firstly, our contribution adds to the deception literature by comparing deception through obfuscation with the established activities of lying by commission, -omission and -paltering. Secondly, we research the reputational risks of including obfuscating and paltering information intended to deceive stakeholders in corporate sustainability reports.

1.5 Structure

The master thesis is structured as follows: Chapter two provides a literature review answering our first sub-question. Here we analyse relevant material on the topic. Chapter three introduces a theoretical framework with the deceptive communication activities relevant for answering research sub-questions two and three. Chapter four presents the research methodology, including research design, data collection and analysis. In addition, we include ethical considerations when conducting this research. This chapter is followed by a presentation of our findings and a discussion in chapters five and six. Chapter seven concludes our master thesis, presents limitations to our research and discusses opportunities for future research. Finally, references and the appendix are found in chapters eight and nine.

2. Literature review

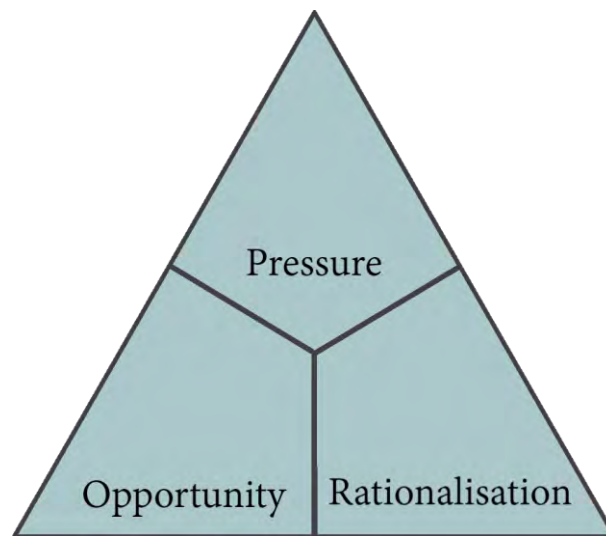
Throughout history and across cultures, deceiving others has been judged unethical (Gaspar & Chen, 2016). Depending on the severity of the deceptive act, it could also be punishable. Hence, this field of study has seen extensive priority in the research community. In fact, deception has been a hot topic for research for several decades and now consists of a substantial body of scientific knowledge (Denault et al., 2022). However, as the discussion will show later, some aspects of deception have not been researched until recently. This master thesis will explore deceptive communication, using DePaulo et al.'s (2003) definition of "deliberate attempts to mislead others". Moreover, we use the fraud triangle as a theoretical model to study deceptive communication in sustainability reports.

The chapter layout will be structured as follow: First, the fraud triangle will be introduced, followed by an elaboration on deceptive communication. Next, a review of the concept of sustainability reporting and selected reporting frameworks and standards is introduced. Lastly, the deceptive and sustainability theory will merge and form the conclusion of the first research question.

2.1 The fraud triangle

The fraud triangle is a framework used to explain the reasoning behind an individual's decision to commit fraud (Murphy & Free, 2016) and consists of three components. These are pressure, rationalisation, and opportunity. Together they form the grounds for conducting deceptive fraud (Dellaportas, 2013). Pressure is the component that provides the incentive or the "why" of fraud. This pressure often stems from a non-shareable problem, which in most circumstances relates to financial pressures or poor business performance. The component rationalisation "helps the offender to deal with the cognitive dissonance associated with their behaviour" (Dellaportas, 2013). Predominantly this would be the excuses the offender uses to justify why it is okay or the right thing to do when committing fraud. The last component, opportunity, explains the circumstances needed for deceptive behaviour to be possible. Most opportunities arise as a result when the skills or knowledge of the offender is perceived by themselves as superior to the controlling entity, thus giving them a perceived edge and an opportunity to commit a deceptive crime (Dellaportas, 2013).

Figure 1: The fraud triangle



To explain the fraud triangle, consider this case: Lance Armstrong cheated his way to seven consecutive Tour de France victories right after winning the battle over metastatic testicular cancer (Tang, 2013). Armstrong and his teammates deceived the entire cycling world for years, and in the US, he became the front figure and a hero of the sport. In the wake of news revealing his deception, the cycling associations decided to erase Armstrong's victories and called back his medals (de Bruijn et al., 2016). After several years of denying any wrongdoing, Armstrong admitted to participating in a systematic doping scheme nearly throughout his entire career (de Bruijn et al., 2016).

One might argue that the reasoning behind his doping schemes and the subsequent mass deception stems from the *opportunity* given by the lack of sophisticated drug testing. At the time of his career, drug testing technology lagged behind the doping strategies applied by athletes. Accordingly, this provided an opportunity for athletes to increase performance through doping with minimal detection risk (Bell et al., 2016). Similar to the opportunity given by the lagging testing technology, *pressure* for engaging in doping was at the time also prevalent in some of the big cycling teams. More concretely, doping was a means to achieve the physical shape needed to support cyclists' ambitious visions of unparalleled bike race victories (Hushovd & Ravnåsen, 2014). To *rationalise* their actions, he and his teammates looked to each other and other cyclists on competing teams to excuse their fraudulent behaviour as something everyone else did in this sport (Hushovd & Ravnåsen, 2014). This statement could thereby sum up the rationalisation: "everyone else does it".

As with the case of Armstrong's deceptive cheating in the sports arena, we argue that companies are incentivised to report on good sustainability performance. Poor sustainability performance could lead to opportunistic reporting. When good sustainability performance is lacking, companies might still feel pressure to report positive sustainability performance figures (Kurpierz & Smith, 2020). Hence, for the following part of the thesis, we assume that pressure to deceive is present in sustainability reporting.

This assumption is based on Perez's (2015) suggestion that several theoretical approaches support the notion of sustainability reports' usefulness in generating corporate reputation. For instance, scholars using the institutional/legitimacy theory suggest that companies are incentivised to report on sustainability issues to manage stakeholders' perceptions (Perez, 2015; Patten, 1992; Akbar & Deegan, 2021). Patten (1992) also suggests that if an industry's or company's legitimacy is harmed due to some poor sustainability performance issue, legitimacy theory suggests that companies are incentivised to respond with increased environmental disclosures. On the other hand, when building upon legitimacy theory, it is argued that companies with poor sustainability performance are incentivised to avoid transparency in their disclosure to protect their image as sustainable firms (Hummel & Schlick, 2016).

Impression management theory is closely linked to institutional/legitimacy theory, which considers strategic decisions intended to manage stakeholders' impression of the corporation (Perez, 2015). Martínez-Ferrero et al. (2019) find that firms use thematic content, verbal tone manipulation, and quantity and syntactical reading as impression-management tools to enhance or obfuscate their reported sustainability. Additionally, they find that such impression management strategies can be closely related to direct noncompliance with reporting principles for quality sustainability reporting (See also Dominique & Boiral, 2017; Talbot & Barbat, 2020). This suggests that literate manipulation is incentivised when companies seek to manage stakeholders' perceptions.

2.2 Deceptive communication

A well-known act of deceitfulness is the act of lying. With “*deliberate attempts to mislead others*” as the definition of deception (DePaulo et al., 2003) and the fraud triangle framework for explaining the reasoning behind the decision to deceive, one question remains: How might one actually go about deceiving someone? Rogers et al. (2017) suggest that lying can be split into three subcategories. Thus, one can categorise a lie as one of commission, -omission, or -paltering. The definition of these three subcategories is misleading through untruthful statements, misleading through withholding crucial information, and misleading or conveying a dishonest message through the selective choice of truthful statements, respectively.

Further, in the aptly named article “Fifty Shades of Deception: Characteristics and Consequences of Lying in Negotiations”, Gaspar et al. (2017) argue that deception is a multidimensional phenomenon. Hence, one cannot attribute only one characterisation to the deceptive behaviour under discussion. Gaspar et al. (2017) found that deception consists of at least three dimensions. Their article elaborates on these three dimensions and provides the literature with their Deception Consequence Model, which challenges the status quo regarding deceptions harmfulness. The three dimensions are intentionality, content and activity. The latter of these three, *activity*, considers Rogers et al. (2017) subcategories as mentioned above. Together these dimensions are argued as providing a more accurate description of differing forms of deception (Gaspar et al., 2017).

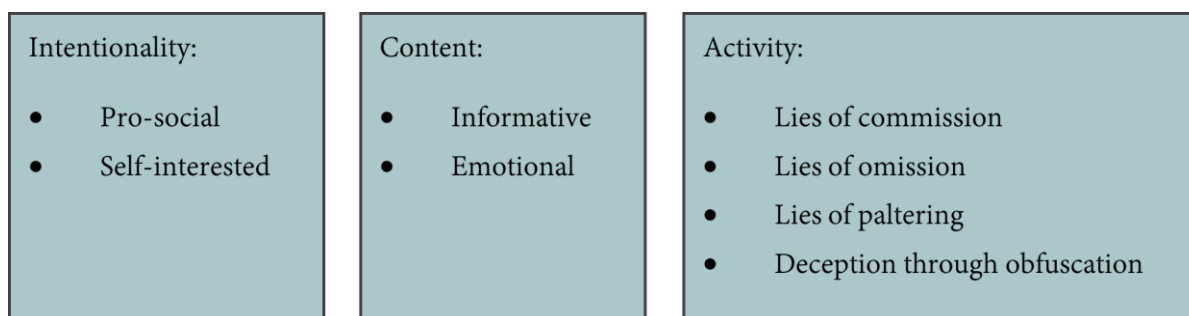
The first dimension Gaspar et al. (2017) identified is *intentionality*, which concerns the intention with the deception. Intentionality can either be pro-social or self-interested. Pro-social intent is deception which intends to benefit the recipient. Deceptive communication with pro-social intentions can often relate to efforts to build relationships, develop interpersonal trust (Levine & Schweitzer, 2014; DePaulo & Kashy, 1998), boost affiliation, or enhance the outcomes of the recipient (Gaspar et al., 2017). Pro-social deception is prevalent in small talk and “shallow” conversations and can often be perceived as being polite or mannerly (DePaulo & Kashy, 1998). Self-interested deceit, on the other hand, intends to harm the recipient to benefit the deceiver. Gaspar et al. (2017) argue that self-interested intentionality varies in permissibility depending on the situation. In situations where one could expect self-interested deception, like in the game of poker, its permissibility should expectedly be higher than in situations where deception is not expected.

The second dimension Gaspar et al. (2017) identified is *content*, which concerns whether the deception is informational or emotional. Emotional content is described as misrepresenting one's emotions. Even though this form of deceptive content lacks research, Gaspar et al. (2017) postulate its prevalence in deceptive behaviour. With concern to negotiations, Gaspar et al. (2017) describe falsely displaying disappointment as an example of how to deceive through emotional content. It is, therefore, an attempt to mislead the recipient's implicit beliefs of the deceiver's emotions towards someone or something. However, emotional content must not be confused with interest, as misrepresentation of interest inhabits informational content.

Contrary to emotional content, informal content involves misreporting information and is by far the most researched of the two (Gaspar et al., 2017). Misreporting information will therefore be conveying an untruthful piece of information. Moreover, Gaspar et al. (2017) use the misrepresentation of negotiators' interest in reaching a deal as an example of misreporting interest.

The last dimension is *activity*, which refers to the act of lying, including the three subcategories mentioned in Rogers et al. (2017), i.e., lying by commission, -omission and -paltering. Considering the purpose of deceptive communication is to mislead, we argue that deception through obfuscation also belongs in Gaspar et al.'s (2017) activity dimension. In the following, these activities will be extensively elaborated on. First, we review Rogers et al.'s (2017) initial findings, and second, we provide the additional deception through obfuscation as a fourth activity. We will subsequently argue for our suggestion, in addition to comparing all four activities to each other.

Figure 2: Deception as a multidimensional phenomenon



2.2.1 Three activities of deception

Lies of commission

When someone lies by commission, they actively make false statements (Gaspar et al., 2017; Rogers et al., 2017). One might call this the simplest and easiest deceptive activity to understand. Consequently, all other forms of deceptive activities can be based on their comparison with the activity of lying by commission. Rogers et al. (2017) suggest that this activity can be identified by its veracity of specific claim(s), which would be false, as well as the deceiver's actions (active). In addition, they also identified that this deception activity directly addresses the relevant issue and attempts to influence the beliefs of its recipient (see Table 1). Pittarello et al. (2016) supplement the definition of lying by commission with being perceived as bearing a requirement of more malicious motives compared to the next deceptive activity.

Lies of omission

Lies of omission differ from lies of commission in that no untruthful claims are uttered (Schweitzer & Croson, 1999; Rogers et al., 2017). Instead, lies of omission are characterised as omitting crucial information regarding the topic of concern. Rogers et al. (2017) also identify that it is a passive form of deceptive behaviour, which means that misleading necessitates a failure to disclose relevant information. In addition, they recognised that this form of deception does not directly address the relevant issue. Neither does it attempt to influence the recipient's beliefs (Rogers et al., 2017). Hence, if one were to lie by omission, one could not state an untruthful claim. Instead, the relevant information is omitted from the persuasive utterances. Notably, this deceptive activity is often perceived as less malevolent than lies of commission and the following form of lying, paltering (Pittarello et al., 2016; Rogers et al., 2017).

Lies of paltering

Paltering has formerly been mentioned as deceptive behaviour. However, Rogers et al. (2017) article are the first to conceptualise it within a framework that compares it to the two former activities of lying known in the literature (lying by commission and -omission). Paltering is somewhat a mix of lies of commission and lies of omission. It is resemblant to lies of omission on the part that no false statements are uttered. As with lies of commission, paltering actively attempts to influence the recipients' beliefs. However, because of paltering's requirements of only uttering truthful statements, it is restricted to addressing the relevant issue indirectly.

Table 1: Dimensions on which Lying by Omission, Paltering, and Lying by Commission Differ (taken from Rogers et al., 2017, p. 458)

Dimension	Lies by commission	Lies by omission	Lies by paltering
Aversiveness			
Veracity of specific claim(s)	False	None	True
Deceiver's actions	Active	Passive	Active
Effectiveness			
Addresses the relevant issue	Yes, directly	No	Yes, indirectly
Attempt to influence beliefs	Yes	No	Yes

In addition to providing the literature with a description of paltering, Rogers et al. (2017) studied the prevalence of the use of the three deceptive activities and people's perception of said activities. More specifically, they looked at lies of commission, -omission and -paltering as a tactic in negotiations. Their findings suggest that laypersons can distinguish these activities from one another. Further, they found that all activities are known tactics among experienced negotiators. However, paltering was found to be significantly more common than lying by commission and lying by omission, as it was seen as a more profitable strategy. Rogers et al. (2017) explain this finding to be a result of the self-perceived ethicality of the act. The palterer often perceives paltering as less aversive than both lying by commission and lying by omission, and thus palterers deem the act more ethical. However, the recipient deems this activity equivalent to lying by commission (Rogers et al., 2017), which is in stark contrast to the self-perception of the palterer. This finding may speak to the detached self-image of someone deceiving through paltering. Since the recipient deems paltering and lying by commission equally unethical, paltering could be expected to incur reputational damage along the lines of lying by commission, which is worse than the incurring damage of lying by omission. Furthermore, individuals judge prompted paltering (as well as other forms of prompted deception) to be less ethical than if it was unprompted (Rogers et al., 2017).

Though there is little literature to be found, beyond Rogers et al. (2017) regarding all three activities of lying, a study by Cornelius Ewuoso (2019) is interestingly challenging their research. More concretely, he challenges their definition of paltering, specifically. Ewuoso (2019) argues that paltering is not an act of deception. Instead, it is "*a deliberate act of avoiding a subject or concealing a truth*". Hence, he argues that paltering can be seen as an

ethical act often intended to foster relations and strengthen social cohesion. This could be related to the intentionality dimensions introduced by Gaspar et al. (2017), where Ewuoso (2019) argues that paltering can possess pro-social intent. To defend his argument, Ewuoso (2019) applied "ubuntu", an African ethical theory. This theory suggests that not all palterers are deemed unethical, and the reputational repercussions are therefore not affected negatively. This theory is contrary to Rogers et al. (2017) findings. Some might explain their opposing views in their rooting in different cultures. Ewuoso (2019) paper may therefore contribute to establishing an additional perspective on the concept of paltering.

2.2.2 Obfuscation

Another well-known act of deception is obfuscation. This type of communication is applied when the intention is to confuse the recipient through complicated language or information overload. Obfuscation is often characterised as the use of complex vocabulary that is difficult to understand or information disclosure that is less accurate or clear. In most cases, this communication form necessitates lengthier statements; generally, they are less readable (Martínez-Ferrero et al., 2019; Talbot & Barbat, 2020). Obfuscation in corporate disclosures is often intentionally and strategically chosen when the intention is to make it difficult, costly, and time-consuming for the reader to select and identify relevant information. In turn, this undermines the readability of the utterances (Smaili et al., 2022).

An important note is that obfuscation is not a form of lying since its usage necessitates the exclusive inclusion of only truthful statements. It cannot actively convey any false message or omit crucial information. Thus, it differs from paltering and omission in different aspects. Where paltering actively attempts to convey an untruthful message, and where lies of omission omit crucial information, obfuscation simply disguises the truth. Its deceptive effects reside in its statement's complexity and length.

2.2.3 Comparison deceptive communication

To compare obfuscation to the other form of deception, we expand upon table 1 to compare deception through obfuscation to the other deceptive behaviours identified by Rogers et al. (2017). As was mentioned briefly in the prior, lies of commission set the stage for comparison and possess traits like false specific claim(s), active actions taken by the deceiver, directly addressing the relevant issue, and lastly, attempting to influence the recipients' beliefs. Rogers et al.'s (2017) framework assumed that the deceiver balances two specific concerns. The first

is aversiveness, which refers to factors affecting the deceiver's self-image. This includes the veracity of specific claims and the deceiver's actions. Rogers et al. (2017) argue that these traits help form the deceiver's self-perceived ethicality. The veracity of specific claims can take the form of true, false or none and it is postulated to be more aversive for the self-image when it possesses a "false" value. The deceiver's actions can either be active or passive and refer to how engaged the deceiver is in his/her pursuit of deceiving the recipient. Rogers et al. (2017) have postulated it to be more aversive for the self-image when this trait possesses the value of "active".

The concern that needs to counteract the aversiveness category is effectiveness (Rogers et al., 2017). This includes two factors that can affect the effectiveness of persuading the recipient. The first factor asks how the relevant issue is addressed. One could address the issue directly, indirectly, or not at all. Rogers et al. (2017) have postulated that most deceivers perceive direct addressing as the most effective in most situations. The second factor asks whether the deceiver attempts to influence the recipient's beliefs. This factor can possess the values of either yes or no. It is assumed that answering yes to this question can strengthen the perceived effectiveness of the deception (Rogers et al., 2017).

Table 2 depicts the characteristics separating lies of commission, -omission, -paltering, and deception through obfuscation. This table is a direct expansion of Rogers et al. (2017) framework, which now includes "deception through obfuscation". The two concerns, aversiveness and effectiveness maintain, as do the traits that affect these concerns. As was mentioned earlier, obfuscation is comparable to paltering on the veracity of specific claim(s)-trait. Both paltering and obfuscation necessitate that the specific claim needs to be true. It is similar to lies of omission in that it takes a passive approach and does not attempt to influence the recipient's beliefs. Notably, one can observe that obfuscation has something in common with even lies of commission. They are both addressing the relevant issue directly.

Table 2: Characteristics separating lies of commission, -omission, -paltering, and deception through obfuscation (inspired by Rogers et al., 2017, p. 458)

Dimension	Lies by commission	Lies by omission	Lies by paltering	Deception through obfuscation
Aversiveness				
Veracity of specific claim(s)	False	None	True	True
Deceiver's actions	Active	Passive	Active	Passive
Effectiveness				
Addresses the relevant issue	Yes, directly	No	Yes, indirectly	Yes, directly
Attempt to influence beliefs	Yes	No	Yes	No

To summarise and argue for our claims, we propose a comparison of obfuscation to the already established activities of deception defined by both Rogers et al. (2017) and Gaspar et al. (2017). Further, we propose that obfuscation includes truthful statements, no active actions in attempts to influence the recipient's beliefs, and lastly, the relevant issue is to be addressed directly. However, it is essential to note that even though obfuscation addresses the relevant issue, it is done in a complex and confusing manner. The question regarding whether the obfuscating deceiver is active in their actions could also be debated. One could, for example, argue that the obfuscating deceiver actively attempts to confuse the recipient. However, our understanding of Rogers et al. (2017) framework necessitates that the deceiver's actions and the attempts to influence beliefs align. More specifically, an active action is combined with an attempt to influence beliefs, and a passive action is combined with no attempts to influence beliefs. In that case, our argument stands, and one can conclude that obfuscation is deception characterised as depicted in table 2.

2.3 Sustainability reporting

In this part, we will present sustainable reporting. First, we present the concept of sustainability reporting, followed by an introduction to some of the most used and popular frameworks. Lastly, we provide a comparison of these frameworks.

2.3.1 Introduction to sustainability reporting

In the mid-18-hundreds to early 19-hundreds, before modern workers' rights and workplace safety standards, the industrial sector was marked by violent clashes between labour and management (Reis, 2008). However, among titans like Andrew Carnegie, Henry Clay Frick and John D. Rockefeller, an industrial company owner named George Westinghouse never saw his workers go on strike. Westinghouse's employees knew him as a kind and caring company owner (Reis, 2008). He is also known for introducing the weekend to his workers, which gives them an extra half-day rest before starting the next workweek (Library of Congress, 2022). His considerations may reflect a business philosophy that considers more than just profits. Westinghouse company took care of its people in an era where big company owners seldom considered such deeds. One might view this as an early example of corporate social responsibility.

In the modern era, however, Westinghouse's approach might be regarded as only a bare minimum. Progressive business philosophy suggests that all companies should take more responsibility in addition to their profits (Kamal, 2021). Some call this corporate social responsibility, and others might call it the triple bottom line or environmental, social and governance (ESG) concerns. Regardless of the name or acronym, an increasing number of companies are now considering their non-financial impact and reporting on them. Such reports can all fall under the umbrella term "sustainability report". These sustainability reports include non-financial disclosure on ESG-related issues (Gillian et al., 2021).

However, note that sustainability reports are not created equal. Both its format and content can vary significantly across different companies. Even though international investors have an increased demand for high-quality, transparent, reliable, and comparable reports by companies on climate and other environmental, social and governance matters, there are little to no requirements regarding the contents of sustainability reporting (IFRS, 2022). Currently, each company can freely decide which metrics to disclose and what format to use in almost all

jurisdictions worldwide, with a few exceptions. The incentives for producing comprehensive sustainability reports can thus be affected by the company's performance. Additional incentives can arise from the marketability of these sustainability performances and the ability to track progress against specific sustainability targets.

As an answer to the jungle of different ways of reporting on sustainability, standards like GRI, SASB, TCFD and the SDGs are now trying to bridge the gap between sustainability performance and reporting. They provide standards, frameworks, and guidelines to help companies process and communicate their sustainability performance. Following such a standard could grant a certification which could be marketed as a stamp of approval for the quality of the report (SASB, 2022c). At the same time, arguments for refraining from reporting on sustainability issues are linked to doubts about its advantages, lack of interest from the general public, or the idea that companies already communicate their environmental issues through other channels. Nevertheless, for an increasing and substantial number of companies, the arguments in favour of reporting prevail over those against it (Kolk, 2004; Kolk, 2008).

The numbers speak for themselves: 86% of S&P 500 firms released sustainability or corporate responsibility reports in 2018. These numbers show substantial growth compared to only six years prior, where just under 20% did the same (Governance & Accountability Institute, 2022). Ken MacKenzie, the chairman of BHP, stated that he had seen a remarkable change in the marketplace regarding ESG. He argues that 15 years ago, most people did not know what the ESG acronym meant (Arvidsson & Dumay, 2021).

2.3.2 Reporting initiatives

As previously mentioned, several reporting initiatives possess different standards and frameworks for reporting corporate sustainability. This thesis has chosen to elaborate on the most common reporting initiatives. These include GRI, SASB, SDG and TCFD, the leading initiatives companies worldwide adopt (Bloomberg, 2022). In the following, we will elaborate on these reporting initiatives shortly and concisely.

GRI

Global Reporting Initiative (GRI) is an independent, international organisation that aims to assist governments, companies, and other organisations to understand, communicate and take responsibility for their business operations' impact on the environment. Today, GRI is the most widely adopted reporting standard, and it is by many viewed as “the global standard” in

sustainability reporting (GRI, 2022b; Hahn & Kühnen, 2013, p. 5; Hervieux et al., 2017). GRI is a common global language companies can use to freely disclose their climate footprint. Doing so will support the pursuit of a sustainable future through openness and well-formed dialogues on sustainable impact.

GRI exists to help organizations to be transparent and take responsibility for their impacts on sustainability matters. GRI aims to create a sustainable future by creating an assembly point for well-written reports. GRI created five principles to ensure quality reporting in sustainability disclosures. These principles include balance, accuracy, clarity, comparability, and reliability. The standards focus on whether a company's economic, environmental, and social impact is negative or positive compared to sustainable development. Further, they aim to be a reliable and valuable source for decision-makers, regulators, and shareholders.

The GRI standards are divided into two main components: The universal standards (GRI 100) and the topic-specific standards (GRI-200, -300 and -400). This standard contains reporting requirements and explanations regarding its use and disclosure. The topic-specific standards include 34 sub-standards on how to report on the ESG dimensions. The reports should be comparable to previous internal and other companies' reports and allow for internal and external stakeholders to get enough information to form an opinion and make an informed decision about the organisation's contribution to the goal of sustainable development (GRI, 2016).

There are two ways to use the GRI standards; as a prepared roadmap which describes how to make a sustainability report following the standards (comprehensive); or use selected standards as a part of an existing report to disclose selected topics (core). The second option is called a "GRI-referenced" claim. Companies doing this are refraining from providing a complete picture of their material topics and their related impact with GRI.

SASB

SASB, short for Sustainability Accounting Standards Board, is a non-profit organisation established in 2011 which develops sustainability accounting standards (SASB, 2022b). Their mission is to help businesses globally report on the sustainable subject that is of the most value to their investors. There is a substantial amount of available information on sustainability factors. It can be challenging to navigate through this information and identify the most valuable information for financial decisions. This is the main task of SASB. They identify

substantial financial material issues, which are challenges that are likely to affect the financial circumstances or the operating profits, thereby being the most valuable for the investors.

SASB's mission is to establish and improve industry-specific standards to help communication on environmental, social and governance issues. Their vision is that a comprehensive understanding of a company's sustainable accomplishments will lead to companies and investors taking decisions based on sustainable reports, which, in turn, leads to improvement in long-term value creation.

The SASB framework contains three fundamental principles for its approach: industry-specific, evidence-based, and market-informed. Today they have a total of 77 different industry-specific standards that assist and guide companies' sustainability reports covering over 26 sustainability issue categories. 77, because it requires an understanding of the specific impact of the different industries. The evidence-based approach assesses whether specific sustainability issues are important for investors and whether they have a material impact on the financial condition. Lastly, the market-based approach uses feedback from all stakeholders to consider how to frame, describe and measure aspects of a sustainability topic (SASB, 2017)

SASB has established that each company is unique. Ergo, they need to assess their opportunities and sustainability risks and choose to disclose standards that are the most relevant to their circumstances (SASB, 2022d). SASB has informed that three-quarters of SASB metrics are appropriate for use by companies and investors globally. Companies are, thus, likely to encounter metrics of questionable relevance a quarter of the time. This is due to differences in governance and industry regulation across jurisdictions. Therefore, companies may omit a disclosure topic that is unlikely to have a material financial impact or modify or substitute the accounting metrics when the disclosure topic is financially material but lack relevance to the geographical context (SASB, 2022a). If a company chooses to do so, it recommends that the company disclose the omission or modification.

SDG

The Sustainability Development Goals (SDGs) are the United Nations (UN) framework for how to reach a sustainable world by 2030 (United Nations, 2022b). The UN has defined the development goals as *“A common plan to [eliminate] poverty, fight inequality and to stop climate changes within 2030”*. The main principle of the development goals is *“leave no one behind”*, meaning that the most vulnerable of us must be protected (United Nations, 2022a).

The SDGs establish a common framework and use a common language and shared purpose. The goals will help bring together synergistic partners to address the world's most urgent societal challenges (Carrots & Sticks, 2020).

The SDGs consists of 17 main goals, covering everything from life on land and in the ocean to the extinction of hunger and poverty. All of the 17 main goals divide into a total of 169 targets. The goals create a list of material topics for our planet (Carrots & Sticks, 2020). Accordingly, the “*SDG-Compass - the guide for business action on the SDGs*” were created to help businesses implement sustainable goals in their operations. Companies reporting on the SDGs can decide whether to use the existing reporting format or prepare a more concise stand-alone report or communication (GRI, UNGC, & WBCSD, 2015). In recent years, several organisations, like the WBCSD, IIRC and GRI, have advised on how to apply the SDGs in their reporting frameworks.

Reporting on the SDGs is divided into five steps, understanding the goals, defining priorities, setting company-specific goals, integrating, and reporting and communicating. Organisations are, however, left to their own in choosing which sustainability goals are relevant and what to disclose.

TCFD

TCFD stands for the Task Force on Climate-related Financial Disclosures and is a framework set up by the G20 countries (PwC, 2022c). It is a relatively newly established framework, and in 2017 they released their first climate-related financial disclosure recommendations. The framework helps companies provide better information to support informed capital allocation. Its disclosure caters to everyone with public debt or equity and asset managers and owners (TCFD, 2022).

The recommendation is structured around the four core elements, governance, strategy, risk management and metrics, and targets. TCFD differs from other frameworks in several ways. They refrain from standalone sustainability reports and implement climate-related disclosure into mainstream reporting. Consequently, TCFD elevates sustainability disclosures to require the same rigorous governance process as financial reporting. Further, they have a forward-looking financially focused view instead of backward sustainability focused. While backwards-looking refers to what has happened, forward-looking is communication on trends and factors that describes current and future business performance (PwC, 2022c).

Despite being a young framework, it already has close to 4000 supporters in over 100 jurisdictions. Being a supporter means that the organization believes that “the TCFD recommendations provide a useful framework to increase transparency on climate-related risks and opportunities within financial markets” (TCFD, 2022b). Although the implementation will occur over several years, there are already changes in motion. In 2021, New Zealand announced mandatory TCFD reporting. They were quickly followed by the G7 countries, Switzerland, China, and others. As of 2021, all UK premium listed companies had to list if their disclosure is consistent with the TCFD recommendation. If not, explain why and how they will rectify it (Deloitte, 2021).

2.3.3 Comparison of reporting initiatives

To compare the aforementioned reporting standards for disclosing corporate sustainability performance, we introduce Table 3, which contains four dimensions that distinguish these standards from each other. The first dimension explains whether they are included as a mandatory report in any jurisdiction. GRI disclosure is mandatory for 50 000 EU companies beginning in 2023 (GRI, 2022b), and TCFD is currently being rolled out as a mandatory reporting framework in countries like New Zealand. Ergo, GRI and TCFD are mandatory reports in one or more jurisdictions. To our knowledge, neither SASB nor the SDGs is mandatory disclosure standards in any jurisdiction. Prior findings regarding mandatory disclosure suggest that it can aid the report’s readability and positively correlate to actual sustainability performance (Li & Jia, 2022; Sinnewe et al., 2021). Notably, readability and actual sustainability performance correlate positively (Du & Yu, 2020; Martínez-Ferrero et al., 2019; Nazari et al., 2017; Talbot & Barbat, 2020).

Table 3: Dimensions where the GRI, SASB, SDGs and the TCFD framework differ

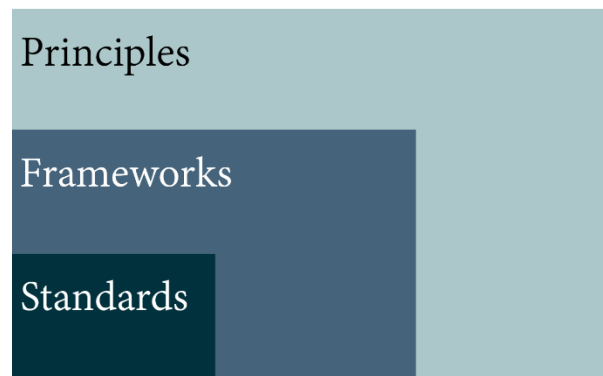
Dimension	GRI	SASB	SDG	TCFD
Mandatory disclosure	Yes	No	No	Yes
Type of guidance	Standards	Standards	Principles	Framework
Scope	General	Industry-specific	General	General and sector-specific
Target audience	All stakeholders	Investors	All stakeholder	Investors, lenders and insurance underwriters

The second dimension considers the type of guidance provided by the reporting initiatives. The type of guidance can be framed as a standard, framework, or as principles. To explain the differences between standards and frameworks, consider this statement from SASB:

“Frameworks provide principles-based guidance on how information is structured, how it is prepared, and what broad topics are covered. Meanwhile, standards provide specific, detailed, and replicable requirements for what should be reported for each topic, including metrics. Standards make frameworks actionable, ensuring comparable, consistent, and reliable disclosure” (SASB, 2022d).

GRI and SASB provide well-defined and rigorous standards that are expected to be followed closely by any company that utilizes them (GRI, 2022a; SASB, 2017). The TCFD, on the other hand, explicitly states on their website that it provides a framework (TCFD, 2022b). Ergo, giving increased liberty regarding formatting. As with the SDGs, which only provide principles, the rigorous nature of the standards ceases to exist. It provides neither comprehensive guidance regarding structure nor broadness, as the framework (TCFD) and the standards (GRI and SASB) do. Figure 3 depicts the restrictiveness of the different types of guidance, with the standards as the most restrictive and principles as the most open to interpretation.

Figure 3: Restrictiveness of different types of guidance



The scope is a dimension explaining how broad the different standards are regarding the company's operational nature. GRI is a general standard that does not consider which industry or sector the company is situated in. This allows for better comparability of sustainability performance across all companies utilising GRI (GRI, 2016). Although, many companies might find it too general at times, where the relevance of some disclosure criteria is deemed unnecessary. However, omission of reporting criteria is accepted, which would downgrade the report to only be a “GRI referenced” claim. The same broadness of scope can be attributed to the SDGs. However, bear in mind that these are paired with a type of guidance that does not provide strict rules regarding disclosure composition, therefore opening up the opportunity for omitting relevant information to a higher degree. As opposed to the broad and general scope of the GRI and the SDGs, SASB has developed industry-specific standards that need to cater to different distinct industries (SASB, 2022a), appealing to differing needs and providing more specific relevance to more companies. The TCFD is somewhat in the middle on the “breadth of scope scale”.

Further, the TCFD provides a framework applicable to general uses and sector specificity (TCFD, 2017). This indicates that even though the basis of every standard is somewhat similar, their main concerns are, in nature, focused on different scopes. Some might praise this with the argument that no business is created equal and thus necessitate different report formats (Unruh, 2016). Others might criticise this by arguing that the report loses much of its purpose when differing formats restrict its ability to compare sustainability performances across different companies.

The last dimension considers the recipients of the reports. The dimension of “target audience” explains whom the report is intended to cater to. GRI reports consider all stakeholders (GRI, 2022a). They provide a framework for aiming at the broadest audience and providing

assurance of inclusiveness. One might argue that the GRI report is the most suitable for companies that want to ensure no harm is given to anyone outside the company. The SDGs consider just as broad of an audience and is a great guide for setting goals for better sustainability performance (GRI, UNGC, & WBCSD, 2015). SASB can be found on the other side of this spectrum. This standard's disclosure mostly intends to cater to investors (SASB, 2017). Similarly, the TCFD considers the investors and the financial stakeholders as its most valuable recipients (SASB, 2017; TCFD, 2017). Figure 4 depicts the dimension of the target audience, where every following level fully encompasses the previous:

Figure 4: The target audience dimensions



To summarise, GRI and SASB provide standards restricting how freely the companies can frame their disclosure, whereas SASB is not mandatory in any jurisdiction. These two standards also differ in whom the report is catering to. Thus, setting the broadness of its scope. The GRI reports is a general standard that intends to consider all stakeholders, whereas the SASB reports divide into several different industry-specific standards which aim to appeal to the investors (GRI, 2022a; SASB, 2017). The TCFD, on the other hand, is a framework applicable for general use and retains some sector specificity (TCFD, 2017). It is similar to GRI when considering jurisdictional disclosure but differs in the recipients of the reports. Additionally, the TCFD reports cater to the financial stakeholders of the company. Finally, the SDGs differ somewhat from all the others. It is built up by the sustainability goals of the UN and, ergo, opens its opportunity to include all stakeholders as well as guide the company's efforts in a joint direction with the rest of humanity.

2.4 Deceptive language in sustainability reporting

In this chapter, the theoretical background from the deception literature and the sustainability reporting literature coalesces. It will provide the necessary background to answer the first research question, “*what are the opportunities for deceptive communication in sustainability reporting?*”. In the following, we will discuss the opportunities for including deceptive communication in sustainability reports and explore the relevance of including each of the four deceptive activities. Secondly, we will elaborate on how deceptive communication could be rationalised.

2.4.1 Opportunity

Previous literature indicates that the opportunity for including lies of commission in sustainability reports is approaching its obsolescence due to the adverse risks it bears and the likelihood of being detected (Accounting Act, 1998, § 3-3 c; Kuratek et al., 2022). Further, while we in today’s reporting environment find opportunities for omitting relevant information, the literature indicates that future reporting will struggle with these omissions (Accounting Act, 1998, § 3-3 c; CCIL, 2022; Kuratek et al., 2022). The explanation for this emanates from the advancement in more complex standards aligned with the IFRS. However, omission in SDG reports can still be expected to be more achievable than in the other frameworks.

As mentioned, the GRI standards have set out reporting principles for securing precise and unambiguous language in their reporting standards. Consequently, some might assume that the standards do not include opportunities for obfuscation. However, several NGO announcements find that obfuscation is prevalent in GRI and TCFD reports (CCIL, 2022; Governance & Accountability Institute, 2022). The same room for obfuscation opportunity is assumed to be just as rampant in the other reporting initiatives. Additionally, Martínez-Ferrero et al. (2019) findings suggest that companies with poor sustainability performance used obfuscating language to mask their performance to paint a better, yet blurrier, picture of their sustainability. Their research built upon impression management theory to characterise obfuscating communication in sustainability reports. To do this, they looked at factors related to the report’s balance, accuracy, clarity, comparability, and reliability of the information. These factors are the same as could be found in the reporting principles from the GRI reporting standards. Martínez-Ferrero et al. (2019) found that obfuscation through complex language is

correlated with poor actual sustainability performance (See also Du & Yu, 2020; Nazari et al., 2017; Talbot & Barbat, 2020). More concretely, they found that “*firms with the worst CSR performance disclose information that is less balanced, accurate, and clear*” (Martínez-Ferrero et al., 2019).

Further, the relationship between the complexity of a sustainability report and the actual performance is analysed in a study by Nazari et al. (2017). They suggest that “*a positive association between actual [sustainability] performance and readability and the size of [sustainability] disclosure documents*” exists. That is, they find that the report's length is positively correlated with the actual sustainability performance. This would suggest that lengthier reports can indicate higher sustainability performance.

With this research as a backdrop, it stands to reason that companies with poor sustainability performance deliberately (or unintentionally) obfuscate their sustainability report to hide the lack of sustainability achievement. Du & Yu (2020) argues that companies are incentivised to do so, as it is perceived by the companies to portray a better picture of the company. This argument reflects the pressure to include deceptive language in sustainability reports. We argue that the same references to previous research can be applied to argue for the pertinent existence of the opportunity to include obfuscation in sustainability reports.

Further, we suspect that the underlying characteristics of paltering can be applied to argue for the relevant existence of opportunities for including it in sustainability reports. The literature on this area is, mildly speaking, scarce. However, as we have already suggested, opportunities for both lies of commission and -omission is dwindling. The opportunities for paltering in sustainability reports should, thus, be more prominent than the opportunities for both lies of commission and -omission. To argue more specifically for this suggestion, we look to the fact that only obfuscation and paltering contain true specific claims, thus, making it easier to defend its veracity. This component is paired with addressing the relevant issue, making it easier to defend against accusations of omissions. Conclusively, we look at the characteristics separating paltering from lies of commission and -omission, as well as the characteristics which align it with obfuscation.

Table 4: Deceptive communication in reporting frameworks

Standard/framework	Lies by commission	Lies by omission	Lies by paltering	Deception through obfuscation
GRI	Very difficult	Difficult	Possible	Possible
SASB	Very difficult	Difficult	Possible	Possible
SDG	Very difficult	Possible	Possible	Possible
TCFD	Very difficult	Difficult	Possible	Possible

Thus, we identify that sustainability reports currently possess opportunities for paltering in addition to opportunities for obfuscation. However, to our knowledge, no research has explored the prevalence of paltering in sustainability reports; hence, it is uncertain whether paltering is as prominent as obfuscation. To strengthen our argument, we discuss the rationalisation component.

2.4.2 Rationalisation

In previous research on obfuscation in sustainability reports, it is found that “*when adopted voluntarily, IR¹ [is] lengthier, uses more complex language, and contains more boilerplate statements*” (Sinnewe et al., 2021). This statement suggests that sustainability reports produced in unregulated jurisdictions risk obfuscating the recipients. They further postulate that this might stem from a “fear of being perceived as omitting ‘bad news’”, which consequently relates to the rationalisation component of the fraud triangle. Thus, this establishes one rationalisation source for including obfuscation in sustainability reports.

As mentioned in the review of opportunity for deception in sustainability reports, previous literature on paltering is scarce, mainly because it is a relatively new research area (Rogers et al., 2017). However, in accordance with the argument for obfuscation, we also argue that companies are incentivised to palter to paint a better picture of the company. Since both conditions only contain true specific claims, we argue that paltering should be expected to be just as prevalent as obfuscation due to their similarities regarding their lessened aversiveness. This also relates to the rationalisation component of such behaviour. When engaging in paltering, the palterer can focus on the veracity of their statement. Hence, preserve one’s moral

¹ Integrated Reporting, another reporting standard

self-image. Rogers et al. (2017, p.457) state that a critical antecedent to deception is self-justification, thus rationalising the action. Further, deceivers often choose to palter rather than lie by commission or -omission (Rogers et al., 2017).

By utilizing the fraud triangle, we claim in chapter 2.1 that pressure to conduct deceptive communication is prevalent. There will always, for some, be an incentive to fabricate better results. Further, we find that different forms of deceptive communication had different degrees of opportunity for implementation and rationalisation by the deceiver. Based on the sustainability reporting frameworks, is it reasonable to assume that both obfuscation and paltering are prevalent in sustainability reporting because they do not contain any untrue statements. Thus, also making them harder to detect in reports. For obfuscation, this aligns with previous literature that detects that obfuscation is prevalent in sustainability reports. The literature is lacking for paltering, but opportunities for paltering are still identified. Further, a high degree of rationalisation is argued for concerning both forms of deceptive communication. The deceiver can preserve their self-image and justify their actions when they can claim that “everything they said was truthful”. Thus, in accordance with the fraud triangle, we conclude that there is an opportunity for both obfuscation and paltering in sustainability reporting.

3. Hypothesis development

Our literature review identified that the opportunity for obfuscation in sustainability reports exists. Not only does it exist, but several peer-reviewed articles find that obfuscation is prevalent (Martínez-Ferrero et al., 2019; Talbot & Barbat, 2020). In addition, we have argued that paltering can occur in sustainability reports. We acknowledge that there is little research on this area, and no literature concludes that this phenomenon is prevalent. However, the literature points out that paltering might be more prevalent than other forms of deception in business settings (Rogers et al., 2017; Powell et al., 2020).

Thus, it could be tempting for managers to hide bad sustainability performance using either obfuscation or paltering. In this chapter, the hypothesis to answer research question two, “*Compared to honesty, what are the consequences of different forms of deceptive communication in sustainability reporting?*” will be developed. However, first, the dimension of honesty will be presented. The honesty dimension is necessary as a control against the two forms of deceptive communication. Lastly, the rest of the theoretical framework used to identify deceptive communication is presented.

3.1 Theoretical framework

To define the theoretical framework we use to develop our hypothesis, we introduce honesty and compare the differences between the utilized conditions. Lastly, we introduce the Gricean cooperate principles as a framework that could be used to identify both obfuscation and paltering in reports.

3.1.1 Honesty: *Freedom from deceit or fraud*

In contrast to paltering and obfuscation, honesty is a known and well-established term in everyday life and one of human life's most fundamental moral values (Levine & Cohen, 2018). Honesty could be defined as “*speaking in accordance with one’s own beliefs, thoughts, and feelings*” (Levine & Cohen, 2018, s. 1401). In other words, honesty is all about being sincere, upright, and faithful to one’s beliefs.

We build on this when we elaborate further on corporate honesty. The economic model assumes that one is honest when the material reward for honesty outweighs the incentives

associated with acting deceptively (Rosenbaum et al., 2014). While the economic theory states that the economic man acts profit-maximizing, recent studies of deceptive human behaviour find that there is a tendency for subjects to avoid lying even when there are financial benefits in doing so (Sakamoto et al., 2013). Thus, there are two situations where individuals will be more inclined to be honest. The first one is where they “*stand to gain less monetarily from dishonest behaviour*” and when “*the probability of being detected and the magnitude of punishment if apprehended increase*” (Rosenbaum et al., 2014, s.181-182).

Studies show that there are different incentives for deceptive communication and honesty (e.g., Rosenbaum et al., 2014; Sakamoto et al., 2013). Chance et al. (2015) find that truthfully announcing the reason behind poor performance achieves better results, while those that misplace blame continue with weak performance. Thus, this indicates the advantages of honest disclosures.

3.1.2 Identifying the conditions

Obfuscation and paltering can be broken down and characterised through the Gricean cooperative principles, as argued by Powell et al. (2020). Deceptive communication is accomplished through strategic violation of communication norms (Powell et al., 2020). Such norms could be the Gricean principles. These principles are quality, quantity, manner, and relevance. Powell et al. (2020) apply the principles on paltering in their research. However, we argue that they are relevant for obfuscation, as well, due to their similar characteristics.

A violation of the first principle, relevance, would be to state something that could be addressed in another way to communicate more directly and hence, more relevant information (Powell et al., 2020). The second Gricean communicative principle, Quality, is to fulfil the “*expectation that the utterance will be truthful and that speakers have justification or evidence for believing their statements to be truthful*” (Powell et al., 2020). Quantity is the “*expectation that speakers will provide an appropriate amount of information and detail: as much as is needed, but no more*” (Powell et al., 2020). Lastly, the fourth principle, manner, is to fulfil the expectation that “*speakers will avoid ambiguity, present information in an orderly manner, and be brief*” (Powell et al., 2020). In other words, this would mean that a statement that adheres to this principle is unambiguous.

Further, we deem it essential to mention that this framework does not set perfect boundaries for identifying paltering and obfuscation. It, therefore, is of great importance that the provided definitions also set a criterion for identification.

When discussing paltering and obfuscation, one can define the two deceptive behaviours in sustainability reports accordingly: “*Paltering is the active use of truthful statements to convey a misleading impression*” (Rogers et al. 2017). It should also violate at least one of the Gricean communicative principles (relevance, quality, quantity and manner). In addition to violating the Gricean principles, obfuscation is “*to make so confused or opaque as to be difficult to perceive or understand*” (Bickart et al., 2015). The notable difference between paltering, obfuscation and honesty will thereby be rooted in that:

- Honesty intends to lead the recipient to comprehend the truth unambiguously. This is done by speaking in accordance with one’s own beliefs, free from deceit and fraud.
- Obfuscation confuses or confounds the recipient through complex language without communicating anything that resembles something false.
- By framing truthful statements, paltering actively attempts to influence the recipient to believe something false.

3.2 Hypothesis

To develop the hypothesis, we look at the theory of each condition. Table two addresses the effectiveness of each condition. For paltering, the relevant topic is addressed indirectly, intending to influence the other party's beliefs. This combination is associated with the high effectiveness of this form of deception (Rogers et al., 2017). Further, obfuscation addresses the relevant issue directly, as with lying by commission. However, it does not actively attempt to influence the recipient's beliefs. Thus, we hypothesise that paltering will be more effective prior to treatment than obfuscation, while obfuscation will more effectively manage stakeholders' perceptions than honesty.

H_{1a}: *Paltering will result in a better stakeholder perception than obfuscation*

H_{1b}: *Obfuscation will result in a better stakeholder perception than honesty*

In the revised evaluation after bad news, we hypothesise, in line with Rogers et al. (2017) findings of paltering, that there will be a negative treatment effect. Gaspar et al. (2017) state that self-serving paltering will bear the risks of negative consequences, as it is perceived as a particularly cunning form of deception. This statement is backed up by Rogers et al. (2017) findings that the recipient deems paltering as unethical as lying by commission. Based on this finding, we propose that paltering bears the highest reputational risks when communicating corporate sustainability. Thus, we implicitly assume that obfuscation bears lower reputational risks than paltering in corporate sustainability disclosures. In addition, the deceiver never lied but presented the information in a manner that was too complicated for the recipient to interpret. Thus, also leaving the recipient perplexed about how to blame the deceiver. This could soften the reputational blow for the deceiver. These arguments form our second hypothesis.

H₂: *Paltering has a negative treatment effect and suffers more considerable consequences than honesty and obfuscation*

Jahn & Brühl (2019) study finds that disclosing moderately negative information in sustainability reports does not unfavourably affect stakeholders' perception of the company. Furthermore, this voluntary disclosure of negative information might increase trustworthiness and foster a more robust and reliable relationship with stakeholders. Additionally, Reimsbach & Hahn (2015) find that a third-party negative sustainability disclosure has a significantly worse effect on investors' perception if the company itself had not also disclosed this information. This is compared to when this third-party disclosure is paired with corporate self-disclosure of negative sustainability news. Their findings, thus, suggest that “*the proactive disclosure preceding the [third-party] statement mitigates the potential risk of being negatively exposed*”. With this as our fundament, we hypothesise that stakeholders' perception of an honest company will not be affected by the disclosure of bad news.

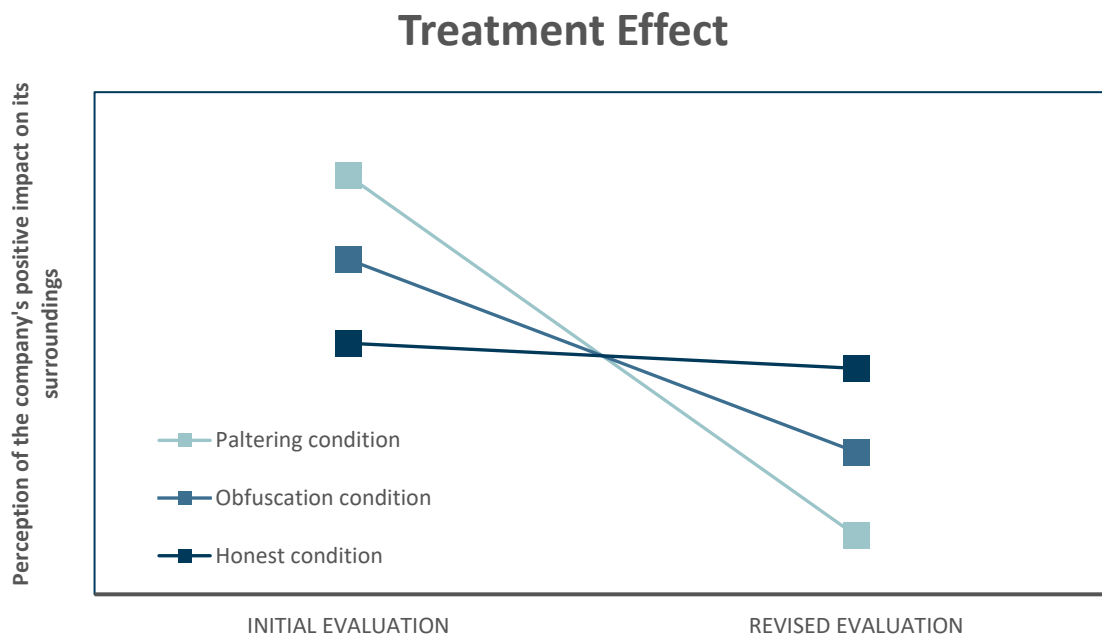
H₃: *Stakeholders' perception of an honest company will not be negatively affected by the disclosure of bad news*

Further, consider the findings from Jahn & Brühl (2019) and Reimsbach & Hahn (2015) together with the similarity between commission and obfuscation. This forms the argument that honest sustainability disclosure is the safest approach when bad news about the company's

sustainability risks is disclosed. Thus, we hypothesise that stakeholders' perceptions of the obfuscating company will worsen in the revised evaluation.

H4: *Obfuscation has a negative treatment effect and suffers more considerable consequences than honesty*

Figure 5: Illustration of hypothesis



4. Research Methodology

This section elaborates on the methodology used to answer research question two. Compared to honesty, we aim to figure out the consequences of paltering and obfuscation in sustainability reports.

According to Sekaran & Bougie (2017), there are two main reasons to conduct research. The first one aims to find a solution to a specific problem, also known as applied research. The second is to attempt to generate more knowledge and understanding of a topic through pure research (Sekaran & Bougie, 2017, s. 5-7). The latter is what we aim to do in this master thesis. This research aims to understand the reputational consequence of deceptive corporate sustainability disclosure by exploring paltering and obfuscation against being honest in sustainability reports. In the following chapter, we will elaborate on the blueprint for our research design and the experimental method, along with choices and clarifications to ensure reliability and validity. Further follows data collection and analysis, and lastly, methodological limitations.

4.1 Research design

A quantitative approach allows a social reality to be measured using methods and instruments that provide numerical information. Further, collecting more data is less expensive and time-consuming (Jacobsen, 2018). This cost-effectiveness allows for a larger sample and, thus, a representative sample population (Sekaran & Bougie, 2017). Quantitative data often have high external validity due to these characteristics, allowing for a generalisation of the findings (Jacobsen, 2018).

With the basis of quantitative data, we adopt a positivism research philosophy. Positivism is commonly used as the underlying philosophy in quantitative studies (Hirschheim, 1985). Positivism adopts the position of realism and states that predictions can be made based on previously observed and explained realities. Observations should be repeatable and usually involves manipulating the reality in one variable, where everything else is held constant (Hirschheim, 1985). Positivistic research aims to establish a causal relationship and build on generalized literature (Bloomfield et al., 2016). Thus, it will, on that basis, be the underlying fundament for this thesis.

Further, the research design follows deductive reasoning, which is typical for quantitative data (Sekaran & Bougie, 2017). The remaining part aims to build on the literature elaborated in chapter two and test the hypothesis developed in chapter three, thus, aiming to confirm and expand the findings in previous literature (Sekaran & Bougie, 2017, s. 26).

4.1.1 Research strategy

We look to an experimental strategy to provide the process by which this research is conducted. An experiment is to conduct a purposeful manipulation and observe the independent variable effect on the dependent variables (Bloomfield et al. 2016). We find an experimental design appropriate as it is a commonly used method in deductive research. Under the right circumstances, an experimental design is appropriate and suitable (Sekaran & Bougie, 2017).

A strength of a controlled experiment is its ability to support causal claims (Angrist & Pischke, 2009). Causal claims imply that there is a correlation between X and Y. In other words, causality is present when a specific action leads to a specific, measurable consequence (Stock & Watson, 2020). Secondly, randomly assigning the sample population to control and treatment groups eliminates the risk of a systematic relationship between the groups (Stock & Watson, 2020, p. 48). Thus, because there is no known difference between the groups, the difference observed after treatment can be interpreted as causal. Lastly, it is difficult using field or archival data to control for the effect of treatment due to effects beyond the research control (Sprinkle, 2003). A control experiment removes such challenges and allows the desired phenomena to be examined.

The impression of a company could be affected by several elements. Applying a controlled experiment instead of field data will remove risks tied to omitted variable bias. However, available resources and temporal aspects limit this thesis research design. These elements contribute to some of the choices in this research design. The experiment is conducted as a one-time cross-sectional survey. Cross-sectional data allows us to analyse the relationship among variables by studying differences during a single time period (Stock & Watson, 2020). A survey collects information from or about people to describe, compare or explain their knowledge, attitudes, and behaviour (Sekaran & Bougie, 2017). Survey strategy is common in business research and exploratory research. Thus, it is considered appropriate for the research questions this thesis seeks to explore.

The respondent replied to a five-minute survey with no further obligations. The respondents' task was simply to read a short text about the case company, which contained basic information such as the type of business and cost strategy and an excerpt from a sustainability report. Further, they were asked to provide their initial evaluation before they were exposed to the treatment, and lastly, they provided their revised evaluation. These evaluations formed the fundament to analyse for a causal relationship between bad news and impression.

4.1.2 Survey design

Initially, the survey displayed company-specific information. This information provided background information to the respondent needed to conduct the rest of the survey. The information was provided as an excerpt from a report. As illustrated below, the text was also presented below the excerpt to secure readability for all participants.

“The report text: Our company is one of the leading retailers worldwide, with products such as clothing, accessories, shoes, and homeware. We have a marketing mix of women, men, teens, and kids (...).”

To examine the presence of a causal effect, we manipulated the independent variable into three conditions: Honesty, obfuscation, and paltering. The condition shown to the recipient was decided by within-group randomization (Stock & Watson, 2020). That is, respondents and conditions are independent of each other. Figure 6 illustrates how the sustainability report was manipulated. Below, we provide the excerpt from the paltering disclosure. The rest can be found in appendix 6.

“The report text: The manufacturing of our clothes takes place in Indian factories. Historically, this country has had the world's highest rates of child labor. Over 62 million children between the ages of 5 and 14 are currently working in factories in Asian Pacific countries. Given this history, the possibility of child labor in Indian factories is considered medium/high. However, in recent years, the rate of child labor in the Asian Pacific countries has steadily decreased along with an increased presence of western businesses moving their production to Asia.

Figure 6: Conditions as presented to the respondent²

Sustainability report 2021

Considerations of human rights

The manufacturing of our clothes takes place in Indian factories. Although the rate of child labor in the Asian Pacific countries has steadily decreased in the last decade, India still struggles with enforcing regulations considering child labor. And currently, over 62 million children between the ages of 5 and 14 are currently working in factories in the Asian Pacific. Where India has the world's highest rate of child labor. Considering that our cost of production is low, the risk of child labor in our production line is considered medium/high.

The management team has assessed opportunities to move our manufacturing away from our Indian supplier to reduce the risk of child labor. However, management concluded not to change suppliers as this would increase costs considerably. Such an increase in production costs would reduce expected yearly profits by up to 10%.

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THE GLOBAL GOALS



Sustainability report 2021

Considerations of human rights

The manufacturing of our clothes takes place in Indian factories. Historically, this country has had the world's highest rates of child labor. Over 62 million children between the ages of 5 and 14 are currently working in factories in Asian Pacific countries. Given this history, the possibility of child labor in Indian factories is considered medium/high. However, in recent years, the rate of child labor in the Asian Pacific countries has steadily decreased along with an increased presence of western businesses moving their production to Asia.

The management team has assessed the risk of child labor, considering changing suppliers to another country—even though this would reduce expected yearly profits by up to 10%. For now, the management team concluded to keep our presence in India. But such assessments could contribute to putting pressure on the Indian government to improve its labor protection laws. We find it important to take the risk, keep our presence, and see through the positive development in the country.

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Sustainability report 2021

Considerations of human rights

The manufacturing of our clothes takes place in Indian factories. This country represents a regulatory vacuum in the global economy as its regulations are inapt to preclude the use of juvenile labor in its secondary sector. However, the trajectory is downward sloping. Statistics show that among the 650 million juvenile workers in the age group 60-600 months in the Asian Pacific countries, 18.8 percent are currently engaged in the secondary sector. Considering our presence in this sector, we consider non-compliance with UN convention no. 138 as medium/high.

The management team has engaged in a strategic deliberation process on this topic of the risk of non-compliance. A production facility in Hizla, Barisal was considered an appropriate mitigation measure. However, the highly elastic nature of demand in relevant customer segments made this mitigation measure prohibitively costly. In particular, the comparative cost inefficiency would adversely affect EBITDA by +/- 10%.

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² Each respondent only saw one of the conditions. Which condition they were given was based on a pre sett setting in the survey design allowing random distribution.

The content in each condition was held constant, so the respondent made their decisions based on the same fundament. However, the information was presented in different linguistic tones, fitting each condition. The content is divided into four parts representing different informational content. The first part presents that the production is conducted in India; this part is structured similarly in all conditions. Next discusses the history of child labour in India and states the risk of having the production location there. Then the alternative to move is presented, and the decision to stay, and lastly, the potential loss of moving their production is present. This order is not set and varies to some degree between the different conditions. The decision to stay in India illustrates how the different conditions vary and is provided below.

Honesty:

“The management team has assessed opportunities to move our manufacturing away from our Indian supplier to reduce the risk of child labor. However, management concluded not to change suppliers as this would increase costs considerably”.

Obfuscation:

“The management team has engaged in a strategic deliberation process on this topic of the risk of non-compliance. A production facility in Hizla, Barisal was considered an appropriate mitigation measure. However, the highly elastic nature of demand in relevant customer segments made this mitigation measure prohibitively costly”.

Paltering:

“For now, the management team concluded to keep our presence in India. But such assessments could contribute to putting pressure on the Indian government to improve its labor protection laws. We find it important to take the risk, keep our presence, and see through the positive development in the country”.

Next up in the survey design is to provide questions to measure the initial impression of the company. To ensure a valid instrument, our survey questions were inspired by a study by Newman and Cain (2014). All conditions were presented with the same questions to measure their impression.

Further, to ensure that the manipulation of each condition had the intended effect, a manipulation check was added to the survey. The manipulation check was designed in the same format as the other question, measuring the readability, if the respondent believed the content to be truthful and relevant for a sustainability report. These three questions were

developed after the Gricean cooperative principles were established to detect obfuscation and paltering in reports. A common view is that an experimental study benefits from including a manipulation check (Hauser et al., 2018).

After the manipulation check, the treatment is presented. It is formed as an excerpt from a newspaper. This treatment is the same for all conditions. After disclosing the bad news, the same questions inspired by Newman and Cain (2014) were provided. The questions and metrics measured must be held constant to establish a causal relationship between the condition and treatment. The excerpt of bad news provided is included below in figure 7. As in the conditions, this text was provided below to ensure readability. Full text is provided in appendix 6.

Figure 7: Illustration of bad news

Business Economics Banking Money Markets Project Syndicate B2B Retail	
<p>Retail Industry</p>	<h2>Factories in India employed 11-year-old workers</h2> <p>Newspaper text: Fashion retail giant profits from exploiting children. A spokesman said the management team was aware of the risk and had even considered changing suppliers. An anonymous informant said, "Those discussions were profit-motivated. Even though the risk of child labor was high, management thought the cost of switching to a more responsible supplier was too costly. The management team did not want to pay for an inspector to do a deep dive into the working conditions of their supplier—"better to manage it as a risk."</p>
<p>Author</p> <p>Sun 21 mar 2022 14.49 BST</p>	

In the last part, we added some questions to define respondents' characteristics. Table 5 illustrates the structure of the questionnaire.

Table 5: Survey structure

Survey design	
Part 1	Information about survey Information about the company Control questions
Part 2	Sustainability report: honest, obfuscation or paltering Question to measure the initial impression Manipulation check questions
Part 3	Disclosure of bad news Attention check Question to measure revised impression post bad news
Part 4	Respondent characteristics Respondents' attitude toward sustainability

When evaluating the type of bad news to disclose as the treatment in the experiment, the discussion evolved around what effect we aimed to achieve. It was important to disclose something the sampled population of stakeholders had a relationship to and opinion about, not a corporate disclosure that the respondent did not care particularly about. Hence, we landed on child labour. Child labour is a well-known and discussed topic that we believe stakeholders to care about. Hopefully, this would provoke forth the effect of the different conditions.

4.1.3 Sampling

Sample size and design are essential for a representative sample for the general population and to avoid bias. As discussed earlier, our target population is stakeholders. More specifically, we look at stakeholders that are members of the general public or the “common man”. Thus, the general public creates the fundament for our sample frame.

The data was sampled by restricted random sampling, where the elements in the population have a nonzero chance of being chosen. Further, the cluster sampling method was applied. Our cluster is defined as the members of the Prolific platform. We know that this sampling method reduces the confidence in our result compared to simple random sampling. However,

simple random sampling is difficult to achieve (Sekaran & Bougie, 2017). As the time aspect and funds limit this thesis, we find restricted random sampling appropriate due to its convenience.

A sample size larger than 30 and less than 500 is usually appropriate for most research. Where samples are broken into subgroups, a minimum sample size of 30 for each category is necessary (Sekaran & Bougie, 2017). Thus, in this study, we need a sample of a minimum of 90 respondents. We follow the table inspired by Krejcie and Morgan (1970) when determining the sample size. Our sample frame is assumed to be larger than 1 million, as it is defined as stakeholders, and a stakeholder is any person or entity that has an interest in a business (Jørgensen & Pedersen, 2018). The table indicates that 384 respondents are an appropriate sample size. In case of biased and incomplete responses, we set the number of respondents to 400.

4.2 Data Collection & Analysis

Using several forms of data could enrich the research and be used as an additional control. We distinguish between two types of data collection methods, primary and secondary data (Jacobsen, 2018; Sekaran & Bougie, 2017). Primary data is information collected directly from the source, and the data collection is tailor-made for its intended research question. Further, the option to gather and use data collected by others is known as secondary data (Jacobsen, 2018). In this part, we use primary data to strengthen the findings in chapter two, which was based on secondary data, as recommended by Jacobsen (2018).

The questions in the survey are kept close-ended to make the standardization and coding processes of the data simple. Treatment was assigned randomly and evenly across individuals, using a pre-set setting in Qualtrics. Hence, treatment assignment is statistically independent of potential outcomes. The distribution of the assigned treatment can be found in figure 8.

Figure 8: Distribution of survey respondents

Honest	Obfuscation	Paltering
133 of respondents	129 of respondents	136 of respondents
392 of respondents		

4.2.1 Measurements

We will in this section review the scales and scaling techniques used in our questionnaire. This section ensures that the data collected are appropriate to test our hypothesis. Scaling our findings to numbers allows for statistical analysis of our data and tests our hypothesis. Thus, this allows us to communicate our findings (Sekaran & Bougie, 2017).

With a more powerful scale, increasingly sophisticated data analysis can be performed. This allows for more meaningful answers in our analysis (Sekaran & Bougie, 2017). In this study, we use both nominal- and interval scales. The nominal scale works as a category label with no intrinsic value. Thus, it is used to define the respondent characteristics. Further, an interval scale is used on our instrument. This gives the questions a numerically equal distance on the scale presented. The interval scale allows us to apply statistical techniques needed to test our hypothesis (Sekaran & Bougie, 2017). More specifically, we use a numerical scale. We provide a nine-point scale with bipolar adjectives on both ends. We are aware that the shape of the measurement could influence the responses. However, prior research has shown that using a five-point or a seven-point scale makes no difference in the United States but could in the responders of subjects in other countries (Sekaran & Bougie, 2017; Sekaran & Martin, 1982).

4.2.2 Coding

To test our hypothesis, we apply statistical analysis. To do this, we start by getting our data ready for analysis. This is accomplished by coding the responses in STATA. We download our dataset from Qualtrics and import it to STATA. Stata is easy to learn and efficient (Baum et al., 2011).

Respondents may be rushing through the survey without paying much attention. Since phrasing is the crucial part of the manipulation, it is important to ensure full attention.

Attention check is also an alternative to control for desired manipulation effects (Hauser, et al., 2018). After the data collection, we identified 16 responses that failed the first attention check. The respondents that failed the first attention check were subsequently thrown out of the survey. After they were removed, we went back to collect new responses. This left us with a total of 392 responses before we cleaned our data further.

Data editing is done to avoid illogical and inconsistent responses in our analysis. It is recommended to use an attention check to eliminate inattentive respondents from the analysis (Hauser, 2018). To identify inconsistent respondents, we added a second attention check. This check contained the same question as previously shown revised. The first question carried a positive tone, “*Does the company’s actions have a positive impact on its surroundings?*” and the second one was presented with a negative tone “, *Does the company's actions have a negative impact on its surroundings*”. These questions are designed to control whether the respondent actually read the question or just skipped through the questionnaire. To pass this check, the responses to these two questions should be negatively correlated. Thus, inconsistent responses will be identified as those where the responses are positively correlated on the extreme end of the scale. In our second attention question, we drop all variables where a positive correlation is detected on the upper or lower end of the scale. This is because it indicates a lack of attention and that the answers were given randomly. In our analysis, we found a total of 58 inconsistent responses. By doing this, our control questions' negative correlation increased to an appropriate level³ and we increased the statistical power of the data (Hauser, 2018).

Additionally, two illogical responses were found. Illogical responses are outliers that substantially differ from other observations (Sekaran & Bougie, 2017). Illogical responses were detected using the graph box command in STATA, then controlling the outliers’ responses. Outliers are carefully considered and removed if the author sees fit. This is because

³ We ran a correlation analysis between the two questions before any adjustments were made and for the revised evaluation. This resulted in a negative correlation of 0.6406 and 0.5024. After removing inconsistent responses, the correlation increased to 0.7694 and 0.6832, respectively.

outliers risk significantly impacting the result (Sekaran & Bougie, 2017)⁴. Thus, after cleaning the data, we ended up with 333 observations.

4.3 Methodological Limitations

Research intends to contribute with valid and reliable knowledge about the reality (Jacobsen, 2018). The methodical chapter has outlined the appropriate strategy to provide such information. The goodness of data is ensured through tests of validity and reliability. Validity ensures the quality of the technique and instruments, while reliability indicates how stable and consistently the instruments tap the variable (Sekaran & Bougie, 2017). Detailed information and conducted test are found in appendix 1. This chapter will provide some of the methodological limitations due to temporal aspects and limited resources. Lastly, we will provide ethical considerations for our research design.

A major limitation of online survey research is the risk of self-selection biases. Some individuals are more likely than others to complete an online survey, and the respondent rates for online surveys are generally low. These sampling issues in online research often hinder the researchers' ability to generalize findings (Sekaran & Bougie, 2017). The survey was published on Prolific to avoid selection biases and nonrespondents errors. We evaluate this as the best option to sample data appropriately and ensure a large enough sample size within budget constraints. Further, the respondents that participated in the survey were randomly distributed between each condition, contributing to a higher degree of randomization.

Sample issues could reduce the external validity and ability to generalize the findings (Sekaran & Bougie, 2017). The survey was distributed in UK and USA to reduce demographic sampling issues.

The experimental design involved a structured questionnaire with close-ended questions to measure a subjective phenomenon. This leads to limited outcomes as the respondents have limited options based on selections made by the researchers. This limitation occurs due to limitations in both funds and time. To justify and increase the validity of the result, the survey

⁴ Our findings were not affected by this eviction. However, it is a vital analysis because we do not know how outliers affect the data before the eviction is done. In addition, we stress that removing outliers was the last step in the data editing. Thus, other illogical responses were likely removed during the initial steps.

question was inspired by Newman and Cain (2014) to ensure an appropriate instrument of measurement.

4.3.1 Ethical considerations

Researchers are obligated to think thoroughly about how the research will be perceived and used. This puts everyone who wants to conduct any study in an ethical dilemma (Jacobsen, 2018). It is essential to evaluate the choices one makes throughout the whole process by following ethical principles.

Several questions regarding ethics arise when doing research and collecting primary data. Research ethics aims to promote free, high-quality, and responsible research. Research ethics contribute to constructing and ensuring a solid scientific practice (National Research Ethics committee, 2022). This thesis follows the guidelines presented by the Norwegian National Research Ethics in the Social Sciences and the Humanities (NESH) to ensure proper ethics in our research.

The respondents to the survey participated voluntarily and could withdraw during the survey if they wished. Thus, to our understanding, we complied with the demand for informed consent (Jacobsen, 2018). Further, as researchers, we must present our data fully and correctly. We have to the best ability been open and made the process and result explicitly by carefully displaying the survey's development and making respondent statistics available, as well as carefully stating the research process in the covered chapter. In addition, we have included an evaluation of chosen methodology, evaluating both reliability and validity in appendix 1.

5. Findings

This chapter will present the analysis of the data we collected through the experiment. Firstly, we provide descriptive statistics followed by the manipulation check. Lastly, the first-order analysis of the data is provided, with supplementary analysis and a summary.

5.1 Descriptive statistics

The random distribution was successful, with an approximately even distribution between each condition (see table 6). Summary statistics show a higher response rate among females than males, with 231 against 99, respectively. However, each gender is evenly distributed in each condition. To get a meaningful analysis of education level, we collide all respondents with more than high school education to a category called “higher education” and compared this against high school education. We find this appropriate as the data are moderately skewed. To provide sufficient analysis, sample size under 25 should be normally distributed (Cessie et al., 2020). For the same reason, we do not provide any additional analysis regarding the respondents' age. There are not enough respondents in each age group in each condition. An overview of age distribution shows that respondents' age is evenly distributed between each condition. Thus, we rule out that participant characteristics skewed the findings in any way.

Table 6 provides the mean variable of the initial- and revised evaluation for each question, with the sample variance in parentheses. On average, the responses end up on the lower end of the scale, and they never had a particularly positive impression of the company. Paltering had the highest initial evaluation and the highest revised evaluation in most of the parameters. Furthermore, paltering has a higher initial evaluation variance than honesty and obfuscation, indicating that respondents answer more spread in the paltering condition. We observe a more consistent response around the sample means in the revised evaluation. An indication that respondents in high degree agree with the score. This applies to all conditions.

Table 6: Mean table initial and revised evaluation

	Honest		Obfuscation		Paltering	
	Mean initial evaluation	Mean revised evaluation	Mean initial evaluation	Mean revised evaluation	Mean initial evaluation	Mean revised evaluation
Is the company ethical?	2.303 (3.120)	1.523 (1.029)	2.301 (2.802)	1.372 (0.950)	3.018 (3.69)	1.495 (0.725)
Does the company's actions have a <i>positive</i> impact on its surroundings?	2.505 (3.234)	1.642 (2.045)	2.646 (2.588)	1.593 (1.422)	3.568 (4.339)	1.730 (1.163)
Do you approve of the company's actions?	2.404 (3.373)	1.385 (0.776)	2.212 (2.669)	1.389 (0.793)	3.018 (4.272)	1.432 (0.848)
Is the company's intention to reduce child labor?	2.936 (5.598)	1.872 (2.131)	2.885 (3.959)	1.566 (1.301)	4.108 (6.097)	1.820 (1.439)
How likely would be to invest in this company?	2 (2.963)	1.468 (1.585)	1.681 (2.023)	1.372 (1.324)	2.243 (3.385)	1.414 (1.045)
Does the company's actions have a negative impact on its surroundings	7.321 (3.313)	8.083 (1.725)	7.097 (3.485)	8.062 (2.184)	6.297 (4.247)	7.838 (2.264)
<i>N</i>	109	109	113	113	111	111

Mean variance in parentheses

5.2 Manipulation check

In the survey, we asked a set of questions to check if the manipulation of the conditions were successful. In the interpretation of the analysis, paltering and obfuscation are compared against the definitions provided in chapter two and the Gricean communicative principles. Honesty is included as a comparison basis for the success of the manipulation.

The manipulation influenced respondents' perception of the case company's intention. In the paltering condition, readers did not detect any breaches in the Gricean principles. On average, they believed the content to be true and found it easy to read. Further, they believed the content to be somewhat relevant. This result came with a low standard error. Thus, responses were relatively concise.

For obfuscation, we found a breach in the principle of manner and relevance. In general, the respondents found the content difficult to understand. They found the content less relevant than the other conditions, and the truthfulness was also rated lower. We keep all conditions the same by length to keep them as similar as possible. Hence, we obfuscated only with complex language, not length and boilerplate statements. The fact that the respondents found the content difficult to understand was just as expected. Further analysis finds that people with higher education found the content more relevant and truthful. At the same time, they rated the content more difficult to understand than people with a high school education. This could indicate that the manipulation worked better for people with more than a high school degree or that individuals with lower education do not admit that the content was difficult to understand (See appendix 2, for the analysis of education level).

Table 7: Manipulation check

Question	Honest Mean	Obfuscation Mean	Paltering Mean
I found the content relevant for a sustainability report of a company	4.899 (0.187)	4.354 (0.177)	4.703 (0.172)
I believe the disclosed content to be truthful	5.688 (0.157)	4.673 (0.152)	5.099 (0.153)
The disclosed contents were difficult to understand	2.294 (0.132)	5.212 (0.202)	2.820 (0.155)
<i>N</i>	109	113	111

Std.err in parentheses

We find no significant difference between the relevance of the content between honesty and paltering. There is a significant difference in the readability and truthfulness of the content. Thus, honesty is believed to be more truthful and easier to read. Interestingly, the findings indicate that people with higher education found paltering easier to read and that the content was more relevant than people with only a high school degree.

Further analysis shows that honesty is rated somewhat higher than paltering and obfuscation, with a significant difference, except for relevance in the content between honesty and paltering. Thus, the respondents detect that there is something “fishy” in the manipulated reports. This can be due to the over-complicated language and, consequently, low readability.

When the reader does not understand the content, they also rate the relevance of the content lower—indicating that they suspect impression management strategy.

Table 8: Manipulation check – difference in mean

Question	Difference between Honest and Paltering	Difference between Honest and Obfuscation	Difference between Paltering and Obfuscation
I found the content relevant for a sustainability report of a company	0.196 (0.773)	0.545* (2.122)	0.349 (1.411)
I believe the disclosed content to be truthful	0.589*** (2.689)	1.016*** (4.649)	0.427* (1.977)
The disclosed contents were difficult to understand	-0.526** (-2.585)	-2.919*** (-11.989)	-2.392*** (-9.365)
<i>N</i>	113	111	

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

5.3 First-order analysis

The first-order analysis will start with a difference in mean analysis of the initial impression, followed by the revised impression. After this, the average treatment effect in each condition will be evaluated. Further, the difference in mean between each condition is analysed. In the end, we add a supplementary analysis of respondent characteristics.

5.3.1 Difference in mean

To measure the difference in mean, we use a two-sample t-test. The T-test is used to determine whether there is evidence that two samples have come from distributions with different means (Stock & Watson, 2020). We use this test to establish a causal effect between differences in the average outcomes in the initial and revised evaluation. We set a 95% confidence interval for the difference in means between the two variables to determine the causal effect.

We find the t-test appropriate due to our moderately skewed data. As all extreme outliers in the data were removed during the coding and we have more than 25 observations, the t-test

works fine for non-normal data (Cessie et al., 2020). We have estimated our data to be non-normal based on the kurtosis, indicating heavy tails. When the sample size is large, the more extreme the distribution of the observations can be without compromising the validity. Thus, with approximately 111 observations in each condition, a t-test was conducted with confidence that the test would not affect the validity of the results (Cessie et al., 2020). Further, we know that the data should be normally distributed for a sample size under 25. We took this into account when analysis for respondent characteristics was conducted.

The t-test decides if we can reject the null hypothesis, the difference in mean is equal to zero. We use the following generalized formula when testing this:

Equation 1:

$$t = \frac{(\bar{y}_x - \bar{y}_y) - d_0}{SE(\bar{y}_x - \bar{y}_y)}$$

Initial impression

First, we find a significant difference between paltering and honesty in all parameters except the willingness to invest. Before any bad news is disclosed, paltering is rated higher than honesty. Prior to bad news, paltering does work on stakeholders and there will be a positive effect on the company's impression compared to honesty. The same significant difference is found between paltering and obfuscation. Thus, before any treatment, companies obtain a better impression by paltering. We do not find any significant effect on willingness to invest, which may be because the willingness to invest is more dependent on other variables. In contrast to our hypothesis, there is no significant difference between obfuscation and honesty. For a company, this means that there are no gains from deception by obfuscation in the absence of bad news compared to honesty.

Table 9: Difference in mean initial impression

Question	Difference between Honest and Paltering	Difference between Honest and Obfuscation	Difference between Paltering and Obfuscation
Is the company ethical?	-0.715** (-2.873)	0.002 (0.008)	-0.717** (-2.980)
Does the company's actions have a <i>positive</i> impact on its surroundings?	-1.063*** (-4.048)	-0.141 (-0.618)	-0.922*** (-3.710)
Do you approve of the company's actions?	-0.614* (-2.329)	0.191 (0.821)	-0.806** (-3.239)
Is the company's intention to reduce child labor?	-1.704*** (-5.801)	-0.481 (-1.871)	-1.223*** (-4.086)
How likely would be to invest in this company?	-0.243 (1.012)	0.319 (1.506)	-0.562* (-2.559)
Does the company's actions have a negative impact on its surroundings?	1.024*** (3.903)	0.224 (0.904)	0.800** (3.047)
N	220	222	224

t statistics in parentheses

*p < 0.05, **p < 0.01, ***p < 0.001

Revised impression

Contrary to the initial impression, no statistically significant differences exist between any of the conditions in the revised evaluation. Stakeholders' perception of the company ends up at approximately the same level after disclosing bad news. Hence, it does not matter for a company if they are honest, obfuscate or palter in their sustainability report; the outcome is the same.

Table 10: Difference in mean revised impression

Question	Difference between Honest and Paltering	Difference between Honest and Obfuscation	Difference between Paltering and Obfuscation
Is the company ethical?	0.027 (0.217)	-0.124 (-1.012)	0.151 (1.133)
Does the company's actions have a <i>positive</i> impact on its surroundings?	-0.088 (-0.620)	-0.137 (-0.900)	0.049 (0.331)
Do you approve of the company's actions?	-0.047 (0.388)	0.043 (-0.356)	-0.004 (-0.034)
Is the company's intention to reduce child labor?	0.052 (0.287)	-0.253 (-1.620)	-0.181 (-1.320)
How likely would be to invest in this company?	0.053 (0.346)	-0.043 (-0.294)	0.096 (0.595)
Does the company's actions have a negative impact on its surroundings	0.245 (1.284)	0.224 (1.125)	0.021 (0.110)
<i>N</i>	220	224	222

t statistics in parentheses

*p < 0.05, **p < 0.01, ***p < 0.001

5.3.2 Average treatment effect

The average treatment effect describes how much, on average, an individual in the population would be affected by the treatment. In this thesis, we will more specifically look at the average treatment effect of the treated. However, we will continue to refer to it as the average treatment effect (ATE). Data from a randomized control experiment can use the sample mean to estimate the causal effect (Stock & Watson, 2020). The causal effect is measured as the difference between the two outcomes mean of our treatment. This is done for each experimental condition. The average treatment effect is also known as the average causal effect (Stock & Watson, 2020).

The average treatment effect is used to determine a causal relationship between two variables. We use the following generalized formula when testing this.

Equation 2:

$$ATE = E[\Delta] = E[\bar{y}_1 - \bar{y}_0] = E[\bar{y}_1] - E[\bar{y}_0]$$

Were the expected average difference between the two variables is the expected mean outcome of treatment minus the expected mean outcome of no treatment. Equation 1 is used as bases for all further analysis of the ATE. To test the hypothesis, we specify the following equations to calculate ATE of condition honest, obfuscation and paltering, respectively.

Equation 3:

$$ATE_{honest} = honest_{revised} - honest_{initial}$$

$$ATE_{obfuscation} = obfuscation_{revised} - obfuscation_{initial}$$

$$ATE_{paltering} = paltering_{revised} - paltering_{initial}$$

We cannot assume a causal effect if the zero conditional mean assumption is violated. To ensure that the assumption holds, we programme the survey to randomly assign individuals to the different conditions (Stock & Watson, 2020).

Difference between revised and initial impression

First, we find significant average treatment effects for all conditions. When bad news is disclosed, it will have a negative impact regardless of an honest, obfuscated, or paltered report. There will be consequences when bad news is disclosed, even when the report honestly discloses the risks connected to bad news.

Table 11: Average treatment effect – comparing initial and revised impression

Questions	Honest Average treatment effect	Obfuscation Average treatment effect	Paltering Average treatment effect
Is the company ethical?	-0.780 (1.264)	-0.929 (1.418)	-1.523 (1.715)
Does the company's actions have a <i>positive</i> impact on its surroundings?	-0.862 (-1.404)	-1.053 (1.646)	-1.838 (1.831)
Do you approve of the company's actions?	-1.018 (1.503)	-0.823 (1.377)	-1.586 (1.786)
Is the company's intention to reduce child labor?	-1.064 (2.092)	-1.319 (1.702)	-2.288 (2.274)
How likely would be to invest in this company?	-0.532 (1.085)	-0.310 (1.247)	-0.829 (1.554)
Does the company's actions have a <i>negative</i> impact on its surroundings	0.761 (1.387)	0.965 (1.716)	1.541 (1.704)
<i>N</i>	109	113	111

Std. dev. in parentheses

We observe the most prevalent changes of honesty in approval of their actions and their belief in the company's intention to reduce child labour, with an average reduction of 10.37% and 11.32%, respectively. The treatment effect that bears the least consequences can be found in the investment likelihood. We find a reduction of 4.91%. This may be due to the already low willingness to invest or the fact that they knew what they were investing in due to the honest disclosure.

For obfuscation, the findings indicate that the parameters of positive impact on their surroundings and the company's intention to reduce child labour fell the most, with 11.66% and 13.97%, respectively. We argue that this is a consequence of the fact that the respondents did not understand the disclosed information, suggesting that the bad news came as more of a shock to the respondents. Further, the findings show the lowest treatment effect on willingness to invest in the company. We argue that this is because the willingness to invest already was low since the respondents did not understand the disclosed information and therefore did not want to invest in a company where they did not understand what the company communicated.

The last condition, paltering, displays the most prevalent changes in the same parameters as obfuscation and has the largest overall treatment effect. The positive effect of the company was reduced by 18.91%, while the belief in the company's intention to reduce child labour was reduced by 23.4%. Further, in line with obfuscation, the lowest treatment effect was found in the willingness to invest. This parameter falls by 7.44%.

The difference in ATE between the different conditions aligns with the initial and revised impressions' findings. There is a significant difference in the treatment effect of paltering compared to honesty. This is depicted in table 11. Finally, there is no significant difference in the treatment between honesty and obfuscation. An exception is the likelihood of investing between paltering and honesty conditions. According to our findings, reading disclosures which includes deceptive communication, does not significantly change your likelihood of investing in the company compared to reading an honest disclosure. However, it is noteworthy that the likelihood of investing is already rated on the lower end of the scale.

Table 12: Difference in mean between average treatment effect of the conditions

Questions	Δ Honest - Δ paltering	Δ Obfuscation - Δ paltering	Δ Honest - Δ obfuscation
Is the company ethical?	0.743 ^{***} (3.650)	0.593 ^{**} (2.823)	0.149 (0.827)
Does the company's actions have a <i>positive</i> impact on its surroundings?	0.975 ^{***} (4.427)	0.784 ^{***} (3.373)	0.191 (0.927)
Do you approve of the company's actions?	0.567 ^{**} (2.54)	0.762 ^{***} (3.582)	-0.195 (-1.010)
Is the company's intention to reduce child labor?	1.224 ^{***} (4.153)	0.969 ^{***} (3.617)	0.254 (0.995)
How likely would be to invest in this company?	0.297 (1.639)	0.519 ^{**} (2.759)	-0.222 (-1.415)
Does the company's actions have a <i>negative</i> impact on its surroundings	-0.779 ^{***} (-3.715)	-0.576 [*] (-2.520)	-0.203 (-0.968)
<i>N (combined)</i>	220	224	222

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

5.3.3 Supplementary analysis

Lastly, we conducted a character-specific analysis. In this part, we only include the significant findings. More details on these findings are found in the appendix. There is no significant difference between males and females in the ATE under honest and paltering conditioning. Though, a significant difference in ATE in obfuscation in four parameters is found. These parameters are the company's ethicality, if they positively impact their surroundings, approval of their actions and the intention to reduce child labour. The treatment, on average, has a larger effect on females than males. We suspect this is because, initially, females rate the company higher than men under the obfuscation condition. The findings indicate that females are misled more easily than men by obfuscating language (see appendix 4).

Further, ATE is lower for those who always or most of the time have the intention to buy products made in sustainable working conditions than the respondents who sometimes or never care about this in the honesty condition. We find this to be because people who care

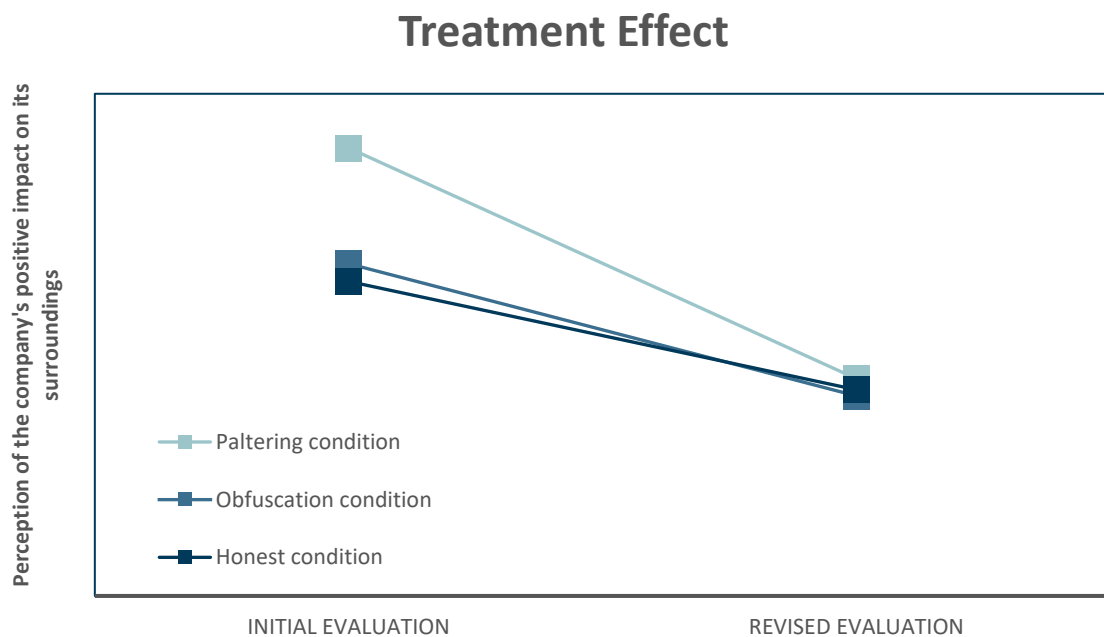
about sustainable working conditions rate the company substantially lower before the bad news is disclosed. Indicating that they already are more critical of what they read before the exposure bad news and, thus, have less room to move further down on the scale, leaving less impact of the bad news (see appendix 3).

Lastly, for honesty, we find evidence that people that sometimes or never buy environmentally friendly products rates the company better than people that states that they always or most of the time do so. The findings indicate that people with environmentally friendly habits judge the company more harshly than people that do not have the same habits before disclosing bad news (see appendix 5). There is no significant difference in the ATE; thus, bad news has the same impact on perception.

5.4 Summary

We observed that paltering is rated significantly higher before treatment than being honest and obfuscation. Simultaneously, the difference between obfuscation and honesty is not significant. In contrast, in the revised evaluation, there are no statistically significant differences between all three conditions. Hence, stakeholders' perception of the company approximately ends up on the same level after disclosing bad news.

Figure 9: Results



Since we find no statistically significant differences between the variables in any of the conditions after treatment, we cannot say it pays off to be deceptive when bad news is disclosed. However, the advantages of paltering before bad news are substantially higher than those for obfuscation and honesty. Despite the higher decline in stakeholder perception of paltering, it would not end up any worse than the other two conditions. This would consequently suggest that paltering is advantageous in successfully managing stakeholders' perceptions prior to bad news while not bearing any differing repercussions from being honest or obfuscating after bad news.

6. Discussion

In this chapter, we will provide a second-order analysis of the findings discussed in chapter five. This discussion will elaborate on the mechanisms behind the findings through the lens of defined theory and related literature.

In the participant's initial perception of the company, we found, as predicted, that paltering is a more successful form of deception than obfuscation. We also found that paltering left the stakeholder with a better impression than honesty. This finding aligns with the findings of Rogers et al. (2017) regarding paltering's effectiveness in deceiving the recipient. Consequently, this leads the stakeholder to hold a better initial perception of the company than the obfuscating and honest company. We argue that this is rooted in the positive tone our paltering beard in portraying its deceptive message. However, the initial stakeholder perceptions of honest and obfuscating disclosures were not found to be significantly different from each other. This finding rejects our hypotheses and might be argued to contradict some of the previous research on the topic, such as Sinnewe et al. (2021) and Martínez-Ferrero et al. (2019).

Sinnewe et al. (2021) postulated that obfuscating disclosures could consequentially emerge when companies avoid omitting relevant information. Martínez-Ferrero et al. (2019) suggested that companies used obfuscating language to mask their lacking sustainability performance to paint a better, yet blurrier, picture of their sustainability. Thus, obfuscation was suggested to be a means to preserve corporate reputation. Even though none of the previous literature we reviewed explicitly researched obfuscation's effectiveness in deceiving, it is still thought-provoking to find no significant difference between obfuscation and honesty's effect on stakeholders' initial perspective of the company. However, an explanation might be found in the degree to which we were able to obfuscate the disclosure. As all three disclosures were restricted to be presented in similar manners, in addition, to ensuring participant interest, our obfuscating disclosure included only a complex presentation. Whereas obfuscation in previous research also looked at length and the use of boilerplate statements as factors in obfuscating corporate disclosures.

Our manipulation check found that the participant acknowledged that the obfuscating disclosure was significantly more challenging to understand than the other two disclosures. Additionally, it led them to believe the disclosed content to be less truthful and less relevant

for inclusion in sustainability reports. These findings differed significantly from the comparable findings for the other two conditions. It can be argued that this indicates that the stakeholders suspected impression management techniques. Thus, it can be argued that they already had a suspicion of the company and therefore rated it as poorly as the ones who rated the honest company.

In contrast, after bad news was revealed, the revised perception amongst the respondents was not significantly different between any conditions. This finding contradicts Rogers et al.'s (2017) findings regarding the reputational damages of paltering. They found that paltering is expected to bear the most notable consequences on the deceiver's reputation. An explanation for this might be found in the different situational conditions. We presented a sustainability report to a stakeholder with the result of a misrepresented image of the true sustainability of the company, Rogers et al. (2017) presented negotiation scenarios where the results had direct negative consequences for the recipients. Our research explores the relationship between a corporation and an individual, while previous research investigated interpersonal relationships. Differences between our findings and Rogers et al. (2017) could be related to the difference in closeness between the deceiver and the deceived.

The literature argues that paltering in negotiation is harmful to relationships. Further, ethicality is judged harder when the palter is a response to a direct question. (Rogers et al., 2017). Our experiment lacks two components compared to previous literature, a personal relationship and direct interaction. This is a possible explanation for the lack of harsh backfire found in previous research. Thus, an impersonal relationship with no direct communication could explain why paltering is a lucrative way to deceive in sustainability reporting.

Another aspect that can explain why the revised perception amongst the respondents was not found to be significantly different between the conditions could be the anchoring effect. Anchoring is a mental shortcut, a form of cognitive bias (Tversky & Kahneman, 1974). The participant had to rate their revised impression based on how they rated their initial impression. Thus, the respondents remembered how they initially reviewed the company and used this as a basis when giving the revised impression. Obfuscation and honesty were already rated poorly. It stands to reason that these ratings could not improve after the bad news was revealed due to the anchoring effect. Simultaneously, paltering did fall substantially in impression, just as expected. It could thereby be argued that the anchoring effect provoked the revised

perception of the honesty- and obfuscation condition. Thus, compared to the other two conditions, anchoring decreased the backfire effect of paltering.

As another reason why the revised perception was not found to be significantly different between the different conditions, consider the strength of the bad news treatment. We suspect that our bad news treatment resulted in such a bad impression amongst the participants that they all rated their impression of the company toward the bottom end of the scale across all three conditions. Thereby, the strength of the bad news could have skewed stakeholder perception regardless of how informed they were beforehand. This aspect can, in turn, help explain why we found significant treatment effects in the honest condition. Subsequently, it could be suggested that honesty does not fully defend against reputational damage when sustainability is not up to par.

Regardless, our findings are somewhat contrary to Jahn & Brühl (2019) and Reimsbach & Hahn's (2015) previous findings on honestly disclosing poor sustainability performance. However, note that our treatment bears a more notable negative tone than both these studies. Our honest sustainability report and our negative news treatment bear purely negative messages. Whereas Jahn & Brühl's (2019) disclosures include only moderately negative information, and Reimsbach & Hahn (2015) included negative disclosures in an otherwise balanced sustainability report. Additionally, where we explored stakeholders' perception of a company before and after a negative third-party disclosure, Reimsbach & Hahn (2015) looked at investors' revisions after this negative third-party disclosure. This could explain our opposing findings, as investors do not fully represent all stakeholders.

Moreover, we suggest that our findings introduce a second dimension to Jahn & Brühl's (2019) study of the effects of including moderately negative information in sustainability disclosures. Where they only looked at self-disclosure, we explored the reputational consequences of third-party disclosure of the same bad news. This could explain our opposing findings, as an additional increase in bad news might increase the probability of affecting stakeholders' perceptions.

The strength of our bad news could also justify our findings regarding participants revised perception of the obfuscating company. More specifically, the effect of post-treatment in the obfuscating condition is just as hypothesised, but it is not significantly different from the honest conditions, contrary to our hypothesis. These two conditions do not produce

significantly different perceptions in the eyes of the stakeholder, neither before nor after bad news is disclosed. Thus, we argue that the explanation for no significant difference between these two conditions resides in the fact that our honesty condition did not produce the expected results, as elaborated on above.

An assumption in economic theory is that one acts honestly when the material reward for honesty outweighs the incentives associated with acting deceptively (Rosenbaum et al., 2014). Our findings suggest that deceiving through paltering is not worse for the corporate reputation than first assumed, even after the deception is revealed. In fact, we find that paltering is advantageous, as it effectively deceives and leaves stakeholders with a better perception of the company. Subsequent exposure of the truth bears significant reputational damages to the company. However, the final stakeholder perception is not worse for paltering than when the company is honest or obfuscated in its sustainability disclosures.

Contrary to paltering, our findings suggest that obfuscation does not provide significant advantages in deceiving the stakeholder. However, the treatment effects of bad news are found to be significant. This suggests that obfuscation is a riskier impression management strategy than paltering, with substantially less effectiveness in portraying a positive picture of the company. All in all, these findings, combined with the economic model and the discussed theory, display solid incentives for managers to apply deceptive behaviour in the form of paltering in sustainability reports.

7. Conclusion

By answering the outlined research question, “*how do stakeholders perceive deceptive language in sustainability reports?*” this thesis defines the opportunities for deceptive communication utilizing the fraud triangle theory. Further, we compare obfuscation and paltering to honesty to identify the consequences of deceptive communication in sustainability reporting. Thus, we contribute to the sustainability literature by exploring the opportunity for paltering in such reports and contribute with further expansion upon the deception literature by putting paltering in a context outside negotiation and comparing it to obfuscation.

Chapter two aimed to identify the opportunity for deceptive communication in sustainability reports, which subsequently answered our first sub-research question. The literature indicates that obfuscation is well-known and prevalent in sustainability reporting. In addition, the literature support that lies of commission and -omission is becoming less and less relevant due to increasingly better regulations and stricter reporting standards. However, lies of paltering are found relevant for sustainability reporting. In line with obfuscation, paltering contains only true specific claims, making it harder to detect as deception. Thus, indicating an opportunity for both obfuscation and paltering as forms of deceptive communication in sustainability reports.

We applied an experimental design for the remaining part of the thesis to build on these findings. This experiment answers the second sub-research question and identifies the consequences of deceptive communication in sustainability reporting compared to honesty. By analysing the effect of bad news under different deceptive conditions, this thesis has shown that a company's reputation falls substantially after paltering in sustainability reports is revealed compared to when this disclosure is honest or obfuscated. However, the revised effects of each condition are not significantly different from each other. Consequently, we cannot conclude that deceptive behaviour pays off in the presence of bad news. Likewise, we cannot conclude that honesty is advantageous in mitigating the consequences of revealed bad news. However, this thesis confirms that sustainability reports have room for obfuscation and paltering. Paltering is especially effective due to significantly better initial evaluation and a lack of backfiring after revealing bad news.

7.1 Limitations & Future research

This thesis aimed to explore a relatively new dimension of deceptive communication, paltering, up against obfuscation which is a familiar concept in sustainability reports. This, along with the limitation of this thesis, forges an exciting path for future research. While we feel confident in the validity of this thesis, future research should include further exploration of the perception of deceptive behaviour in sustainability reports. We encourage researchers to control for the effects of different degrees of severity of bad news concerning our findings. This could identify if there are different consequences between mild and severe deception on stakeholders' perception.

In addition, this thesis provided only one type of bad news, namely child labour. We suggest that different types of negative news, such as oil spills or deforestation, could result in different reactions. Hence, in accordance with Jahn & Brühl (2019), we underline that exploring the effect of different types of news is an interesting object for future research. Furthermore, conducting similar research that precedes our time horizon could be beneficial. We acknowledge that because it is a one-time survey that is conducted, there is a risk that the layout of the survey prompts the responses. It would be interesting to explore if a survey conducted over several time periods would reproduce our findings.

Our findings imply that there are no significant differences in stakeholders' perspectives between obfuscation by complex language and honest disclosure. As presented in chapter two, obfuscating language is supported by lengthier and boilerplate statements. Sinnewe et al. (2021) postulate that companies use lengthier and, thus, more obfuscating statements for fear of omitting relevant information for stakeholders. Our findings could suggest that obfuscation by length and the use of boilerplate statements as an addition would bring out the full effect of obfuscation and consequently be more effective in deceiving the recipients of the reports. In addition, Nazari et al. (2017) found that companies with better sustainability performance published lengthier sustainability reports. Thus, it could be suggested that publishing lengthier reports could bring out a positive association in the recipient resulting in significantly different results compared to honesty. On that account, future research should include obfuscation by length as a condition. We suspect that a more favourable initial perception of obfuscation will be observed when obfuscating by length is included in the use of complex language.

Contrary to Rogers et al. (2017), we did not find paltering to end up any worse than the other two conditions regarding stakeholders' revised perception. Thus, paltering was deemed less risky than first assumed. Consequently, it would therefore also be a preferable option as an impression management strategy. However, as discussed, our finding could be a consequence of a lacking personal relationship between the deceiver (the company) and the deceived. We encourage future research to explore paltering with varying degrees of closeness between the deceiver and the deceived to identify the hidden costs and risks of this deceptive behaviour.

Lastly, we suggest that an analysis of the frequency of deceptive communication in non-financial reports is an interesting topic for future research. Whereas we have done a literature review and found that paltering and obfuscation are relevant in sustainability reports, we do not look at the frequency in which they both occur. Previous literature discusses the frequency of obfuscation (e.g., Du & Yu, 2020; Martínez-Ferrero et al., 2019; Nazari, 2017; Pinnuck et al., 2020; Sinnewe et al., 2021; Talbot & Barbat, 2020), but this research has not been conducted for paltering. Such research is interesting as it could further build on our findings. In addition to building on Rogers et al.'s (2017) findings, that negotiators prefer paltering over other forms of deceptive communication. On this note, we end this thesis eager to read additional research and follow the development on this topic.

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9. Appendices

Appendix 1

To ensure our thesis's scientific quality and accurate results, we want to control the quality of the chosen instruments. Thus, ensure that the instrument measures the variables they are supposed to and measures the theme correctly (Sekaran & Bougie, 2017). Ergo, the goodness of the measurements can be controlled through validity and reliability.

While validity is concerned with whether we measure the right concept, reliability, on the other hand, looks to what extent the measurement is without bias. Hence, the stability and consistency of the measurement. Sekaran & Bougie (2017) defines these concepts as “Evidence that the instrument, technique, or process used to measure the concept does indeed measure the intended concept” and “attests to the consistency and stability of the measuring instrument”, respectively.

Validity

One of the more immense challenges when using questionnaires with setting response options is to ensure that the questions measure the phenomena we want to measure. In this thesis, we aim to measure perception. The phenomena are vague and cannot be measured directly (Jacobsen, 2018). Thus, we had to formulate questions that could work as indicators of the theoretical term. This is known as content validity (Jacobsen, 2018; Sekaran & Bougie, 2017). Sekaran & Bougie (2017) states that a panel of judges can control the external validity. For this thesis, we have collaborated with our supervisor to ensure that the right phenomena are measured and can, at a minimum, ensure face validity.

Internal validity ensures that the analysis provides consistent estimators for the causal effect and evaluates whether the study helps answer a specific question of interest (Stock & Watson, 2020). Elements that could threaten this in our study are the experimental effects. Subjects in an experiment can change their behaviour merely because they know they are a part of it. This is known as the Hawthorne effect (Stock & Watson, 2020, s. 480). Deciding if an experiment has bias due to the Hawthorne effect is done by judgment based on details on how the experiment where conducted. This was a part of the consideration when creating the survey design.

Further, external validity threats are differences in the sample population studied and the population of interest. The actual causal effect might not be the same in the population studied and the population of interest (Stock & Watson, 2020). Also, differences in settings can affect the result. For this study, the bad news was disclosed right after they learned about the company. This is most likely not the case in real life and might result in different responses from the population.

External validity must be judged using specific knowledge of the population, and important differences between the sample and population would cast doubts on the external validity (Stock & Watson, 2020, s. 333). External validity is ensured before the data are collected through the study design (Sekaran & Bougie, 2017). We used Prolific to gather a population as close to the population of interest as possible and designed a survey that was as similar as possible to a true sustainability report. Further, we are aware that the sample might not be the population that would read the sustainability reports and evaluate this as the most significant threat we have to external validity.

Reliability

Reliability is a question of bias and if there are some methodological explanations for the outcomes, that is, if the result is affected by the experiment formation (Jacobsen, 2018; Sekaran & Bougie, 2017). Sources of bias could be the survey's design, mistakes during coding or analysis of the data. Some limitations and possible solutions were discussed in limitations and future research, as these methodological limitations also are related to the time scope.

To control for compromised- and thus biased responses, we conduct a test to control the internal consistency of a measure. This is done with the interitem consistency reliability test. This test controls the consistency of respondents' answers. Answers should generally be correlated and not all over the place (Jacobsen, 2018; Sekaran & Bougie, 2017). The latter could be a sign of unreflected responses. By eliminating such respondents, we ensure a reliable result.

To test for reliability, we use Cronbach's coefficient alpha. A higher coefficient indicates a better measuring instrument. We evaluate a Cronbach value of 0.7 or higher as acceptable internal consistency, higher than 0.8 as good and over 0.9 as excellent. Further, lower than 0.6 is doubtful, and under 0.5 is substandard (Lin et al., 2020).

For our initial variables, we get an alpha higher than 0.9, and this result is excellent. We can conclude that after the dataset is cleaned, there is consistency between the responses before the treatment. The responses after treatment have an average alpha of 0.88. These results are somewhat lower but still regarded as good results. The results indicate that some attention was lost further along in the survey. However, due to the relatively high alpha, it does not significantly impact the consistency of the response throughout the survey.

Appendix 2

Table 13: Manipulation check – Education

	Manipulation check					
	Honest Higher education	Honest High school	Obfuscation Higher education	Obfuscation High school	Paltering Higher education	Paltering High school
I found the content relevant for a sustainability report of a company	4.900*** (20.34)	4.897*** (16.56)	4.494*** (22.42)	4*** (11.05)	4.838*** (23.54)	4.355*** (13.91)
I believe the disclosed content to be truthful	5.600*** (27.74)	5.846*** (23.58)	4.704*** (26.98)	4.594*** (14.79)	5.100*** (28.03)	5.097*** (17.75)
The disclosed contents were difficult to understand	2.271*** (13.85)	2.333*** (10.40)	5.383*** (22.68)	4.781*** (12.49)	2.638*** (16.87)	3.290*** (8.86)
<i>N</i>	70	39	81	32	80	31

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix 3

Table 14: DIM sustainable working conditions

	Difference in mean between high and low intention to buy products that are made in sustainable working conditions?					
	Honest		Obfuscation		Paltering	
	DIM before treatment	DIM before treatment	DIM before treatment	DIM ATE	DIM ATE	DIM ATE
Is the company ethical?	-0.730 (-1.781)	-0.26 (-0.495)	0.033 (-0.071)	0.864** (3.217)	0.0549 (0.705)	0.144 (0.317)
Does the company's actions have a positive impact on its surroundings?	-0.359 (-0.841)	-0.243 (-0.489)	0.230 (0.460)	0.601 (1.841)	0.102 (0.267)	0.480 (0.983)
Do you approve of the company's actions?	-0.633 (-1.49)	-0.077 (-0.151)	-0.309 (-0.644)	0.872** (2.604)	0.085 (0.261)	0.782 (1.674)
Is the company's intention to reduce child labor?	-0.804 (-1.487)	-0.81 (-1.280)	0.753 (1.255)	1.132* (2.323)	0.081 (0.828)	0.178 (0.299)
How likely would be to invest in this company?	-0.554 (-1.377)	0.17 (0.421)	-0.197 (-0.461)	0.460* (2.107)	0.218 (0.773)	0.179 (0.433)
Does the company's actions have a negative impact on its surroundings	0.550 (1.255)	-0.31 (-0.531)	-0.439 (-0.873)	-0.575* (-2.018)	0.662 (1.663)	0.069 (0.155)
<i>N</i>	64	75	68			68

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 15: Mean sustainable working conditions

	Mean before treatment of intention to buy products that are made in sustainable working conditions?											
	Always / Most of the time				About half the time				Sometimes / Never			
	Honest	Obfuscation	Paltering		Honest	Obfuscation	Paltering		Honest	Obfuscation	Paltering	
Is the company ethical?	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment
	1.922	2.240	2.897	2.652	2.500	2.864	3.045	2.385	3.571			
Does the company's actions have a <i>positive</i> impact?	2.250	2.507	3.412	2.609	2.750	3.182	3.136	3	4.476			
Do you approve of the company actions?	2.063	2.173	2.691	2.696	2.250	3	3.091	2.308	4.095			
Is the company intention to reduce child labor?	2.500	2.773	4.162	3.304	3.583	3.409	3.818	2.885	4.667			
How likely would be to invest in this company	1.750	1.587	1.985	2.304	1.417	2.182	2.409	2.077	3.143			
Does the company's actions have a <i>negative</i> impact?	7.594	7.107	6.471	7.043	7.417	6.909	6.818	6.923	5.095			
N	64	75	68	23	12	22	22	28	21			

Appendix 4

Table 16: Mean by gender

	Mean before treatment separated by gender					
	Honest	Obfuscation	Paltering	Honest	Obfuscation	Paltering
	Male	Male	Male	Female	Female	Female
Is the company ethical?	2.424	1.892	3.483	2.250	2.562	2.854
Does the company's actions have a <i>positive</i> impact on its surroundings?	2.333	1.973	4	2.579	3.041	3.415
Do you approve of the company's actions?	2.424	1.784	3.345	2.395	2.466	2.902
Is the company's intention to reduce child labor?	3.152	2.297	4.310	2.842	3.247	4.037
How likely would be to invest in this company?	2.333	1.676	2.897	1.855	1.712	2.012
Does the company's actions have a <i>negative</i> impact on its surroundings	7.303	7.432	5.621	7.329	6.863	6.537
<i>N</i>	33	37	29	76	73	82

Table 17: DIM by gender

	Difference in mean between males and females					
	Honest	Obfuscation	Paltering	Honest	Obfuscation	Paltering
	DIM before treatment	DIM before treatment	DIM before treatment	DIM ATE	DIM ATE	DIM ATE
Is the company ethical?	0.174 (0.471)	-0.700* (-2)	0.629 (1.525)	0.612 (0.614)	0.909** (3.289)	-0.226 (-0.688)
Does the company's actions have a <i>positive</i> impact on its surroundings?	-0.246 (-0.653)	-1.068*** (-3.440)	0.585 (1.305)	0.411 (1.411)	1.087*** (3.392)	-0.126 (-0.318)
Do you approve of the company's actions?	0.029 (0.077)	-0.682* (-2.082)	0.442 (0.991)	0.070 (0.222)	10.772** (2.835)	-0.048 (-0.123)
Is the company's intention to reduce child labor?	0.309 (0.626)	-0.949* (-2.404)	0.274 (0.511)	-0.125 (-0.28)	0.398** (2.953)	-0.216 (-0.439)
How likely would be to invest in this company?	0.478 (1.337)	-0.036 (-0.126)	0.884* (2.266)	-0.193 (-0.85)	0.398 (1.572)	-0.465 (-1.391)
Does the company's actions have a <i>negative</i> impact on its surroundings	-0.026 (-0.068)	0.569 (1.517)	-0.916* (-2.088)	-0.352 (-1.22)	-0.298 (-0.851)	0.295 (0.800)
<i>N</i>		110	109	109	110	111

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix 5

Table 18: Mean intention to buy sustainable products

	Mean before treatment of intention to buy products that are made in sustainable working conditions?											
	Always / Most of the time				About half the time				Sometimes / Never			
	Honest	Obfuscation	Paltering	Honest	Obfuscation	Paltering	Honest	Obfuscation	Paltering	Honest	Obfuscation	Paltering
Is the company ethical?	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment	Mean before treatment
	1.922	2.240	2.897	2.652	2.500	2.864	3.045	2.385	3.571			
Does the company's actions have a positive impact?	2.250	2.507	3.412	2.609	2.750	3.182	3.136	3	4.476			
Do you approve of the company actions?	2.063	2.173	2.691	2.696	2.250	3	3.091	2.308	4.095			
Is the company intention to reduce child labor?	2.500	2.773	4.162	3.304	3.583	3.409	3.818	2.885	4.667			
How likely would be to invest in this company	1.750	1.587	1.985	2.304	1.417	2.182	2.409	2.077	3.143			
Does the company's actions have a negative impact?	7.594	7.107	6.471	7.043	7.417	6.909	6.818	6.923	5.095			
N	64	75	68	23	12	22	22	28	21			

Table 19: DIM Intention to buy sustainable products by education level

Difference in mean between high and low on if they buy environmentally friendly products						
	Honest	Obfuscation	Paltering	Honest	Obfuscation	Paltering
	DIM before treatment	DIM before treatment	DIM before treatment	DIM ATE	DIM ATE	DIM ATE
Is the company ethical?	-1.018** (-2.588)	0.299 (0.799)	-0.401 (-0.797)	0.559* (2.136)	-0.247 (-0.872)	-0.225 (-0.491)
Does the company's actions have a <i>positive</i> impact on its surroundings?	-0.668 (-1.636)	-0.101 (-0.279)	-1.062* (-2.161)	0.194 (0.621)	-0.377 (-1.017)	0.369 (0.885)
Do you approve of the company's actions?	-0.756 (-1.735)	-0.179 (0.498)	-0.919 (-1.762)	0.260 (0.745)	-0.120 (-0.395)	0.365 (0.815)
Is the company's intention to reduce child labor?	-1.199* (-2.328)	0.156 (0.355)	-0.082 (-0.139)	0.469 (1.062)	-0.206 (-0.553)	0.459 (0.864)
How likely would be to invest in this company?	-0.920* (-2.525)	-0.327 (-1.049)	-0.893 (-1.93)	0.304 (1.274)	0.199 (0.783)	0.016 (0.038)
Does the company's actions have a <i>negative</i> impact on its surroundings?	0.474 (1.149)	0.422 (1.107)	0.995* (2.054)	0.064 (0.216)	0.662 (1.815)	0.247 (0.550)
<i>N</i>	64	75	68	68	86	74

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix 6

Information about survey

This survey is a part of an experimental study. During this survey, control questions will appear to ensure that all information is comprehended. If you incorrectly answer a control question twice, you won't be able to continue the survey.

About the company and control questions

Read the following excerpt from the report carefully

Text on image: "Our company is one of the leading retailers worldwide, with products such as clothing, accessories, shoes, and homeware. We have a marketing mix of women, men, teens, and kids.

The concept behind the brand is quite simple – to create high-quality, yet simple and sleek stylish pieces at an affordable price. We are in a market with high competition from other well-established brands. The key to our success is our cost strategy. We manage, time after time, to outsource our production to more cost-efficient manufacturers than our competitors. This strategy has allowed us to remain as one of the leading retailers in today's ever-populated market.

Regularly outsourcing production to cheaper manufacturers in southeast Asia allows for faster production at a lower cost. With cost-effective measures taken in all area's possible areas, we can afford to offer low prices to consumers."

Q1: Where does the company manufacture?

- Asia and Europe
- Asia
- Asia and Oceania
- America

Q2: What kind of strategy does the company have?

- Cost – outsourcing production to cheaper manufacturers
- Price – offering premium products with high costs
- Quality – making sure that all of the products meet a minimum quality standard
- Branding – creating a strong positive association with the company logo

Conditions

Each participant is shown either an honest, obfuscation or paltering condition. The survey text for each condition is found below, followed by a control question that must be answered right to move on.

Honest:

The report text: The manufacturing of our clothes takes place in Indian factories. Although the rate of child labor in the Asian Pacific countries has steadily decreased in the last decade, India still struggles with enforcing regulations considering child labor. And currently, over 62 million children between the ages of 5 and 14 are currently working in factories in the Asian Pacific. Where India has the world's highest rate of child labor. Considering that our cost of production is low, the risk of child labor in our production line is considered medium/high.

The management team has assessed opportunities to move our manufacturing away from our Indian supplier to reduce the risk of child labor. However, management concluded not to change suppliers as this would increase costs considerably. Such an increase in production costs would reduce expected yearly profits by up to 10%.

Obfuscation:

The report text: The manufacturing of our clothes takes place in Indian factories. This country represents a regulatory vacuum in the global economy as its regulations are inapt to preclude the use of juvenile labor in its secondary sector. However, the trajectory is downward sloping. Statistics show that among the 650 million juvenile workers in the age group 60-600 months in the Asian Pacific countries, 18.8 percent are currently engaged in the secondary sector. Considering our presence in this sector, we consider non-compliance with UN convention no. 138 as medium/high.

The management team has engaged in a strategic deliberation process on this topic of the risk of non-compliance. A production facility in Hizla, Barisal was considered an appropriate mitigation measure. However, the highly elastic nature of demand in relevant customer segments made this mitigation measure prohibitively costly. In particular, the comparative cost inefficiency would adversely affect EBITDA by +/- 10%.

Paltering:

The report text: The manufacturing of our clothes takes place in Indian factories. Historically, this country has had the world's highest rates of child labor. Over 62 million children between

the ages of 5 and 14 are currently working in factories in Asian Pacific countries. Given this history, the possibility of child labor in Indian factories is considered medium/high. However, in recent years, the rate of child labor in the Asian Pacific countries has steadily decreased along with an increased presence of western businesses moving their production to Asia.

The management team has assessed the risk of child labor, considering changing suppliers to another country—even though this would reduce expected yearly profits by up to 10%. For now, the management team concluded to keep our presence in India. But such assessments could contribute to putting pressure on the Indian government to improve its labor protection laws. We find it important to take the risk, keep our presence, and see through the positive development in the country.

Q1: Where is the manufacturer located?

- Sri Lanka
- Bangladesh
- India
- China

Rating of the initial impression

On a 9-point scale, rate the following statements

- Is the company ethical?
- Do the company's actions have a *positive* impact on its surroundings?
- Do you approve of the company's actions?
- Is the company's intention to reduce child labor?
- How likely would be to invest in this company?
- Do the company's actions have a *negative* impact on its surroundings?

Manipulation check

On a 9-point scale, rate the following statements about the sustainability report you read.

- I found the content relevant for a sustainability report of a company
- I believe the disclosed content to be truthful
- The disclosed contents were difficult to understand

Survey orientation

A few weeks after this 2021 sustainability report was published, a news article was written about the company.

Click the "next"- button to read the news article.

Bad news disclosure

Read the following disclosure:

Bad news:

Newspaper text: Fashion retail giant profits from exploiting children. A spokesman said the management team was aware of the risk and had even considered changing suppliers. An anonymous informant said, "Those discussions were profit motivated. Even though the risk of child labor was high, management thought the cost of switching to a more responsible supplier was too costly. Also, the management team did not want to hire an inspector to investigate the actual working conditions more than required by regulations. Better to handle this as a risk."

Rating of the revised impression

On a 9-point scale, rate the following statements

- Is the company ethical?
- Do the company's actions have a *positive* impact on its surroundings?
- Do you approve of the company's actions?
- Is the company's intention to reduce child labor?
- How likely would be to invest in this company?
- Does the company's actions have a *negative* impact on its surroundings?

Respondents characteristics

Q1: What is your gender?

- Male
- Female
- Non-binary/third gender
- Prefer not to say

Q2: Your age?

- Under 25
- 26-41
- 42-57
- 58-67
- Over 67

Q3: Select your highest completed education

- Highschool
- Associate degree
- Bachelor's degree
- Master's degree
- Doctoral degree

Q4: Is your intention to buy products that are made in sustainable working conditions?

- Always
- Most of the time
- About half the time
- Sometimes
- Never

Q5: Do you buy environmentally friendly products?

-
- Always
- Most of the time
- About half the time
- Sometimes
- Never