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Swedish Banks and Socially Responsible Investments

A qualitative study of strategies and communication

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Abstract

Title: Swedish banks and Socially Responsible Investments - A qualitative study of strategies and communication

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Purpose: To describe what strategies Swedish banks use when investing socially responsible and how these are communicated.

Limitations: The study is limited to investigate five big banks on the Swedish market who invest in funds and stocks.

Method: To answer the research questions, a qualitative method is used. Primary data is collected through semi-structured telephone interviews. Secondary data is collected through information on the banks' webpages, CSR/SRI-reports, relevant internet sources and previous research from recognized journals and books.

Empirical results and conclusion: All the banks believe SRI to be a good investment opportunity and most of them associate SRI with long-term financial benefits. Other common drivers are customer demand and expectations from society. The banks work with sustainability throughout all of the funds at different levels and they use a combination of the SRI strategies screening, best-in-class and active ownership depending on the level of sustainability and responsibility they wish to reach. The main driver for communicating the strategies for SRI is to be transparent towards customers and the information provided is to be found at webpages and in CSR/SRI-reports. The demand and knowledge of SRI from institutional customers have increased significantly, but it has not yet reached levels where it is fully embraced by retail customers. Most of the banks have an ongoing private communication through meetings and written information with their institutional customers

and with their retail customers they communicate mainly through private consultations at the bank offices. To increase the retail customers' interest of SRI we suggest more information and education about SRI within the banks so that everyone can transfer this knowledge to the customers and additionally actively promote sustainability funds.

Suggestions for further research: Further research is suggested to include smaller banks in a similar study to investigate if the phenomena we found can be valid for Swedish banks in general. We also suggest further research within the area of communication and marketing such as what affect the webpages have on retail customers in terms of information and communication of sustainability funds and if active marketing of sustainability funds would affect the retail customers' perception of SRI.

Keywords: Banks and SRI, SRI, Socially responsible investments, Sustainable investments, Sustainability funds, Responsible investments, Communicating SRI, Negative screening, Positive screening, Norms-based screening, Active ownership, Shareholder activism

Abbreviations

CSR – Corporate Social Responsibility

ESG - Environmental Social and Governance

PRI - Principles for Responsible Investment

SRI – Socially Responsible Investment

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1. Introduction

1.1 Background

“The social responsibility of business is to increase its profits”

The man behind the quote is Milton Friedman, the time was September 1970 and the idea is that corporations exist to make a profit, nothing else (Friedman, 1970). Since the 1970's a lot has changed, the perception of Socially Responsible Investment (SRI) is moving towards a view where we expect corporations and the financial sector to be more responsible in business activities. The society expects the financial sector to become more than a short-term profit maximizing figure. The financial sector's paradoxical assumption that there is a trade-off between making a profit and being responsible is not true (Löhman & Steinholtz, 2004).

This thesis is about how Swedish banks practice SRI and how they communicate their strategies for SRI to clients and other stakeholders. The financial sector's changed perception of the factors that create financial performance over time has in combination with the increased understanding of the importance of sustainability and corporate responsibility developed a new viewpoint of SRI. We choose to study Swedish banks because we believe that they have good experience in the area and because we believe that they may be at the leading edge of practicing SRI.

In the last decade SRI has matured from being an activity carried out only by a small group of investment specialists to an established investment strategy widely adopted even by institutional investors. The concept of SRI has emerged from the late 1920's investment funds to meet special investment needs of religious investors. The funds were screening out investments that were not in line with the moral values of the religious investor groups. In the 70's and 80's the SRI approach became broader and a wider set of people encouraged this investment approach, since then it has only been growing and as of today there are various strategies for SRI (Viviers & Eccles, 2012). The aspect that distinct SRI from other investments is that both financial and nonfinancial aspects, normally social, environmental and ethical, are taken into consideration in investment decisions (Renneboog, Horst & Zhang,

2007). The ethical complexity of SRI increased when large institutional investors adopted the social responsibility criteria into their investment decisions mainly because of public pressure and governmental debates (Sparkes & Cowton, 2004). The financial sector with its institutional investors has grown to be one of the strongest drivers in the Corporate Social Responsibility (CSR)-development over the past years. The main driver of the development of SRI is the adoption by institutional investors who are becoming more active as shareholders, this puts pressure on corporations to engage in CSR (Löhman & Steinholtz, 2004; Sparkes & Cowton, 2004; Renneboog, Horst & Zhang, 2007).

1.2 Terminology

A part of SRI is to consider environmental, social and governance (ESG) issues when making investments, the terminology for investing with (ESG) aspects differs depending on who uses it. According to a research made by Viviers & Eccles (2012), a general trend since the 70's is a shift from using the terminologies *social investment* and *ethical investment* to a more common usage of *social responsible investment*. Nowadays, it is the most common name used, although it could potentially shift in the future. The term *sustainable investment* and *responsible investment* are becoming more popular, the name of the academic journal launched in 2010, "Journal of Sustainable Finance & Investment", could also have an impact on what will be used in the future (Viviers & Eccles, 2012). There are also many different definitions of what social responsibility is, this can be somewhat problematic when analyzing the investment strategies for SRI since there is no standard definition to lean against (Michelson et al, 2004). Woods & Urwin (2010) state that even though there is a terminological ambiguity associated with the concept of SRI all of the terms have the same main characteristics, they are used to describe the same thing, namely the integration of non-financial concerns in the investment process (Woods & Urwin, 2010). In this essay, we will use the term socially responsible investment (SRI) because of its popularity in our current situation. Moreover, we will use the term Corporate Social Responsibility (CSR) when we talk about companies working with the non-financial aspects that SRI investors search for.

1.3 Problem

We mentioned earlier in the introduction background that SRI as it is today took its forms already in the 1920's with the establishment of investment funds that met the needs of religious investors (Viviers & Eccles, 2012). This led us to a surprisingly unexplored field of study; how are strategies for SRI communicated? If the first SRI funds emerged to meet the needs of religious investors, do financial institutes today engage in SRI primarily to meet clients' needs? Which leads us to the next problem; for clients to know that the financial institutes engage in SRI there is a need to communicate this, how is that done? Investor relations managers are increasingly aware of CSR issues and since financial investors increasingly require that a company works with CSR, they are also aware of the need to communicate with both actual and potential investors (Fieseler, 2011; Michelson et al, 2004). The need to report on social and environmental performance and to communicate the activities is acknowledged amongst many companies, including financial institutes (Michelson et al, 2004).

There are many strategies for SRI, shareholder activism is one of them. This approach is popular amongst institutional investors and it is effective in a sense that investors can use their shareholder ownership to influence corporations to improve their CSR (Sparkes & Cowell, 2004). The main driving forces behind shareholder activism is according to Hendry et al (2007) profit maximization of the own institution and a growing need of positioning against other competitive institutions in order to meet expectations of clients. If this is the case then there is also a need for institutions to communicate that they are trying to influence the firms they invest in. Hendry et al (2007) have findings which support that some institutions communicate their activism through publicity in the press and they do it to promote their brand image. Hendry and his co-writers have an interesting suggestion that institutions who act as responsible owners do it because it is expected of them and not necessarily because they want to, which makes responsible ownership a question of being intellectual rather than being ethical (Hendry et al, 2007). In an attempt to find drivers of SRI commitments when there are no legislation forces involved, Jansson & Biel (2011) also came to the conclusion that besides the ethical and moral concerns, there is also a business opportunity in attracting the growing group of environmentally concerned customer which is done through SRI. This again points at the importance for institutions to communicate their SRI strategies.

1.3.1 Purpose

The purpose of this thesis is to describe what strategies Swedish banks use when investing socially responsible and how these are communicated.

1.3.2 Research questions

- What are the drivers of SRI for Swedish banks?
- What strategies do they use for investing socially responsible?
- What do Swedish banks want to accomplish by communicating their investments made in a socially responsible way?
- How do they communicate their strategies for SRI?

2. Methodology

The aim of this chapter is to present the methodology used in the process of addressing the purpose and research questions of the study. It will give an insight in the character of the study as well as an understanding of the structure. The research methods are presented and motivated as well as the companies used in the survey. The chapter is concluded by an analysis of the trustworthiness of the methodology and the empirical findings.

2.1 Initial research

The concept of SRI is constantly expanding and therefore the research area has a large potential. As a foundation to our purpose, we started by searching on strategies in the databases, and we found many previous researches that would facilitate our study.

We chose to focus on banks on the Swedish market that engage in funds and stocks, because after doing some research, we found that for example the Swedish national pension funds (AP-fonder) had legal requirements on SRI, which made it unfair to use these in the study. Moreover, we found that the chosen banks have the same type of funds and thus it made more

sense to investigate and compare these than comparing companies with business models that are not similar.

2.2 Research choice

The purpose with the thesis is to describe what strategies Swedish banks use when investing socially responsible and how these are communicate. The lack of previous research on the specific topic made it more relevant to focus on getting a deepened knowledge and understanding of what the banks do within SRI and communication rather than a shallow quantitative survey. A qualitative survey is most suitable when the information about the subject in the problem statement is fairly unclear (Jacobsen, 2002, pp. 145) as it is in our case. Jacobsen (2002) states that the benefits with making a qualitative survey are that it is possible to be more flexible, the validity is high and the limits for the answers that can be received are few (Jacobsen, 2002, pp. 142), this is in line with what we found most adequate for our research. Therefore, we chose to use a qualitative survey with a limited amount of banks. We decided to use five banks because we found the amount big enough to be able to understand general phenomena and small enough to make a deepened qualitative study during our limited time. The banks we chose have a bank function as well as a fund function and are all members of the Swedish Investment Fund Association (Fondbolagens förening). They are big operators on the Swedish market and they probably have more stakeholders and power to affect portfolio companies than smaller banks, thus we assumed that more of them would be at the leading edge of practicing SRI compared to smaller banks. We chose to use the 4 biggest Swedish banks and a big Norwegian bank (DNB) that also operates on the Swedish market. The banks we selected are some of the biggest in the sector, we found more valuable information by scanning their webpages compared to other banks and additionally we had the possibility of interviewing employees. Although DNB not is one of the biggest banks in Sweden, we assumed the bank to be more comparable to the biggest Swedish banks than a smaller Swedish bank because of its big position in Scandinavia and thus the reasons mentioned before. We refer to the banks as Swedish banks in the thesis because all of them operate on the Swedish market. By only investigating larger banks, we also assumed that the findings could contribute to a more valid generalization because they are probably more similar than if comparing different institutions with a fund function, for example; two small bank, two big bank and one pension fund.

To fulfill our purpose and answer our research questions, we needed to gather information of both the strategies and the communication of them. Subsequently, this led to two separate data collection parts; Gathering information of their strategies and how they communicate them based on written information through the banks' webpages i.e. secondary data, and oral data through interviews i.e. primary data.

2.3 Data collection

2.3.1 Primary data

We selected to base this part of our survey on interviews, both because it would facilitate our data collection and because we had the possibility. When choosing type of interview, we chose telephone interviews because of several reasons; we already had a lot of valuable information to answer our purpose through collecting data from the banks' webpages and we found that we would get enough information that was lacking by making telephone-interviews. Moreover, the method was more time-saving than face-to-face interviews and additionally we assumed it would be difficult to schedule a face-to-face interview with a respondent at the right position for our questions, since they all have positions within the company where they are very busy and none of them are situated close to us geographically. We also chose to interview one person per company, who were supposed to work with or be responsible of these kinds of questions. In one case, the bank let us interview two people at the same time. We found that our questions were not designed to encourage personal opinions and thus could be answered by only one person per company. For selecting the respondents, we searched through the banks' webpages to find relevant employees within the specific business area, when we thought we had the appropriate respondent to interview we contacted them to schedule a telephone interview. We chose the open interview as the best alternative because our empirical analysis depends on the respondents' answers which cannot be predetermined into different answers to choose from. Moreover, an open interview is suitable when few units are investigated, when there is an interest in what the individual says and how the respondent interprets the questions (Jacobsen, 2002, pp. 160-161). In our case, we had five companies and we did not have predetermined answers. We chose to use questions in a determined sequence with the desire to get open answers, which we believe we accomplished.

When developing our interview questions, we based the preliminary questions on our research questions and purpose. When we booked the interviews, we sent these questions to the respondents. The time span between the time of booking and the actual interviews made it possible to gather as much secondary data as possible on forehand so that we could focus on asking the questions that were hard to find publicly. Therefore, we adapted the interview questions after the information we had found for each and every one of the banks, for example we had already found information about all the banks' strategies and in some cases even about their drivers. Therefore, we were well prepared during the interviews and knew what questions out of the original ones we did not have answers to. The result was that we could get as much information as possible during the limited time of our interviews and thus answers to all our questions. When booking the interviews, we asked for 20 minute interviews, but in some cases the interviews turned out longer. We recorded all the interviews using our mobile phones which were valuable in our analysis process.

2.3.2 Secondary data

Secondary data was collected to get previous research of the background of the concept of SRI, drivers for SRI, different strategies, findings on communication, the empirical findings as well as methods of interviewing and analyzing. The previous research was mainly collected from recognized journals through the Gothenburg University's electronic databases, mostly from Business Source Premier. We chose that specific database because we got informed about its wide range of articles as well as it was easy to search with different criteria. Before using an article, we noted the year it was published, amount of sources used and the amount of other researchers citing the article. We did this to secure the quality and standard of the articles, and when possible use the latest research available. We added information from relevant webpages when we found that necessary, for example the UN PRI. For the methods and analysis, we also used books that we found descriptive and relevant.

For gathering secondary data for our empirical findings, we started by looking at the companies' webpages and thereby found CSR-policies, SRI-policies and other kinds of valuable information. By investigating this way, we found information about the banks' strategies and how these are communicated to stakeholders. In accordance with this, in most cases we considered that we had enough information about how they work with SRI and their strategies. What was hard and in some cases impossible to find was how these were communicated, specifically to customers and other stakeholders, and if they communicated

their strategies in other ways. Therefore, in order to fulfill our purpose and answer our research questions it was essential to gather primary data through interviews with the banks.

2.3.3 Analyzing the data

We chose to base our analysis of data on the grounded theory methodology. Right after collecting our primary data through interviews, we summarized the information we had and listened to the interviews at least once again to make sure we did not misinterpret anything. After writing our summaries of the interviews, we sent them to the respondents so that they could approve of the information we were about to use. In accordance with the constant comparative method, a method within the grounded theory methodology, we discussed similarities and differences after every interview as well as when we gathered secondary data, which made it possible to find patterns along the way (Strauss & Corbin, 1994, pp.273). We also made profiles for all the banks where we separated the information into different focus areas based on our research questions; drivers, strategies, communication and drivers for communication. By doing this, we facilitated the comparisons which helped us understand phenomena. Similar to the grounded theory, we started to reach a level of saturation in the later interviews, which means that we could not find new concepts and similarities between the banks (Oktay, 2012, pp. 14). We knew more or less on what questions they were about to answer the same as the other banks as well as where the banks differ.

When collecting and analyzing our empirical findings, we realized that the banks to a great extent not only communicate their strategies for SRI but also inform the customers about them. Even though these are connected and information can be a process within communication, we chose to separate them in our empirical findings. By doing this, we believe that the patterns become even more clear. We want to clarify that in our purpose, research questions and theoretical framework the term communication stands for both information and communication. When analyzing the data, we found that all the banks work with SRI more or less within all their funds, but that they additionally have certain sustainability funds. Consequently, we have investigated the strategies and communication for all their funds in general and their sustainability funds in particular. The quotes we use in our empirical findings are taken from both interviews and the banks webpages, when the source is an interview it is marked as “respondent” followed by the banks name otherwise the quote is marked with only the banks name.

2.4 Presentation of research companies

Nordea

Nordea has its foundation in the 1820 and they are around 31500 employees. They operate in nine home markets; Sweden, Denmark, Norway, Finland, Estonia, Lithuania, Poland and Russia.

SEB

SEB is a Swedish bank that was founded in 1856 and they are around 16500 employees. They operate in 20 countries but mainly in Sweden, Estonia, Latvia, Lithuania, Denmark, Norway, Finland and Germany.

DNB

DNB is the largest Norwegian financial services group and operates on the Swedish market since 1995. They are around 400 employees in Sweden and have offices in Stockholm, Gothenburg and Malmö.

Handelsbanken

Handelsbanken is a Swedish bank that was founded in 1871. They are around 11000 employees and operate in 24 countries. Their home markets are in Sweden, Great Britain, Denmark, Finland, Norway and the Netherlands.

Swedbank Robur

Swedbank Robur was founded in 1967. Swedbank Robur is one of Scandinavia's largest mutual fund managers and a wholly owned subsidiary of Swedbank. Swedbank is a Swedish bank that has its foundations in 1820 but they got their current name in 2006. They have their home markets in Sweden, Estonia, Latvia and Lithuania and they are more than 14000 employees.

Respondents

All of the respondents are in charge of sustainable investments even if they have different titles.

| Bank | Respondent | Position |
|----------------|-------------------------------|--|
| Nordea | Jan Särllvik | Fund manager, sustainability funds |
| SEB | Viktor Andersson | Co-Head of ESG analysis, SEB Investment Management |
| DNB | Josefine Ekros & Per Löfvgren | Analysts in the SRI-team |
| Handelsbanken | Elisabeth Jamal Bergström | Head of Communications, Savings and Asset Management |
| Swedbank Robur | Marianne Nilsson | Vice president of Swedbank Robur and head of Active ownership and Sustainability |

2.5 Trustworthiness – Validity

Jacobsen (2002) describes that validity means that we investigate what we actually want to investigate and that what we have investigated is relevant for our purpose. Validity can be separated into two subcategories; *inner validity* and *outer validity* (generalization). High inner validity is accomplished if we investigate what we intend to investigate (Jacobsen, 2002, pp. 21-22). Because our purpose is to understand how Swedish banks communicate their strategies for SRI and we chose to investigate a few components, we find that the time aspect made it easier to get a deepened insight into the banks and thus easier to investigate what we want to investigate. We constantly returned to our purpose and research questions to make sure that we focused on the right data. We found that the information provided publicly from the banks differed, which made it important to tailor the interviews. On a few occasions during the interviews, the respondent answers that he/she could not answer to the question. All of our respondents work with SRI and to get a broader aspect of communication, we also asked a few questions about marketing. Consequently, it happened that the respondent was

not sure about the bank's methods. If we additionally had interviewed a person working with marketing, we might have had slightly different answers. Although, our purpose is to describe the strategies for SRI and how these are communicated and therefore we still find that we got adequate information from our interviews. Moreover, to have interviews made it possible to ask relevant questions and follow up questions for our purpose. If we were to make a broader analyze with for example a questionnaire, our results would be shallower and thus our inner validity would be lower. Although, a problem with a qualitative method could be that the respondents give nuanced answers and that the interviews are hard to interpret because they lack structure (Jacobsen, 2002, pp. 144). It was inevitable for the respondents not to promote their banks and methods during the interviews and be biased, which we also noticed at their webpages and reports. To avoid nuanced answers, we formulated our questions in a way that does not encourage personal opinions but rather facts about the banks, and consequently the empirical data that we used is mainly based on the answers to our questions. We also had an opened mind and tried not to ask leading questions during the interviews. To avoid interpretation problems and lack of structure on the answers, we listened to the interviews at least once again, summarized the data we were about to use and sent it to the respondents for approval. This explained, we find the empirical data to be trustworthy and the inner validity to be high.

Jacobsen (2002) states that outer validity is about to what extent we can generalize our findings. Moreover, he states that the purpose with qualitative surveys often is to understand general phenomena and not to generalize the phenomena into a bigger population. One type is to generalize the findings from few units to a theoretical level (Jacobsen, 2002, pp. 266). Inspired by the grounded theory while analyzing our empirical data, we found patterns out of our own findings (Oktay, 2012, pp.13- 14) and consequently we could discover general phenomena amongst the banks. In accordance with Jacobsen (2002), it is hard to know if the phenomena we found are valid in a bigger population (Jacobsen, 2002, pp. 266). We choose to only use some of the biggest banks in Sweden, which makes it hard to generalize the phenomena to *Swedish banks*, which also includes small banks. We therefore find the outer validity to be high in terms of understanding phenomena but that the survey lacks information from small banks to be able to be generalized for all Swedish banks. Although, we still find our survey trustworthy because the inner validity is high and we have understood general phenomena amongst the investigated banks.

3. Theoretical Framework

This chapter will present the development and background of SRI, both in general and in Sweden. The aim with this part is to give the reader an understanding of SRI from a Swedish bank's perspective in the current situation. Moreover, the chapter will present previous research and findings of drivers for SRI, strategies within SRI and communication of SRI. These parts aim to give the reader an understanding of the phenomena described in our empirical findings, analysis and conclusion.

3.1 Background

3.1.1 Development of SRI

The institutional investors are according to Sparkes & Cowton (2004) amongst quoted companies the most important ownership group, the development of their decisions to comply to SRI issues has become one of the major drivers of the development of CSR (Sparkes & Cowton, 2004; Löhmann & Steinholtz, 2004 pp. 70). The term Socially Responsible Investment (SRI) originates from the term ethical investment, these two terms are now somewhat synonymous, but there are differences. Ethical investments have been carried out for a long time and the first investors to have an ethical character on their investment portfolios were churches in the U.S. This goes back as far as to mid-1920's but it took until the 70's before the term ethical investments became more widespread (Sparkes, 2001; Sparkes & Cowton, 2004; Eurosif, 2012). In the journey towards becoming an established investment strategy, the term ethical investment have been more and more replaced by the term SRI (Sparkes & Cowton, 2004). In an attempt to make a distinction between the two terms Sparkes suggests that the term ethical investment should be used for non-profit organizations such as churches, charities and environmental communities whereas SRI should be the term for investing in sustainable or ethical assets for both financial and ethical reasons (Sparkes, 2001). The European Social Investment Forum (EUROSIF) states that both SRI, as well as the definition, is in an evolving process. They describe SRI as a combination of "investors' financial objectives with their concerns about social, environmental, ethical and corporate governance issues" (Eurosif 1, 2012). Although until today, it has not been clear to

what extent SRI should depend on a globally accepted code or on individual moral and ethical responsibility (Hellsten & Mallin, 2006).

3.1.2 Development of SRI in Sweden

Bengtsson (2008) describes the development of SRI in Sweden in his paper *A History of Scandinavian Socially Responsible Investing*. In 1988, the first Swedish Environmental fund was established, which used negative environmental screening. A few years later the usage of positive screening and Best In Class started. During the 90's, combinations of both positive and negative screening were used and during this time, the pressure on investors from different stakeholders increased. This was due to factors such as the United Nations Conference on Environment and Development summit in Rio in 1992, as well as better awareness of CSR. In the 2000's the concept of SRI went from being implemented by niched investors to be more mainstream. In 2001, Swedish national pension funds were regulated to include environment and ethics into their investment policies as well as reporting to the government how this is done. The importance of financial valuation was also included in the regulation. Investing in a socially responsible way became more important and Landsorganisationen (LO) emphasized that international conventions should be included in the investment process. This led to the development of SRI policies by the investors that took "international conventions of human, childrens' and labor rights, as well as environmental issues and corruption" into consideration. Over time, the SRI criteria changed and except for the first negative screening of the production of alcohol, tobacco, armament/firearms they came to include exclusion of the gambling industry and pornography. Some organizations came to have an impact on SRI and many investors started to follow their guidelines. UN Global Compact, the OECD (Organization for Economic Co-operation and Development) Guidelines for Multinational Enterprises and the Principles for Responsible Investment (PRI) by the UN Environmental Program were some of the biggest. By excluding companies that violate international conventions on several aspects, the introduction of GES/SIX Index in 2006 facilitated for investors to know what companies not to invest in but it was also a tool to compare the performance of their SRI funds (Bengtsson, 2008).

3.2 Drivers of SRI

The adoption of Socially Responsible Investment by the major Swedish pension funds has been regulated by the government but there is no such legislation in the area of public or private investment institutions. Despite this, many investment institutions have decided to increasingly invest in a socially responsible way (Jansson & Biel, 2011).

3.2.1 Financial benefits

One assumption could be that investors adopting SRI do it because of moral values or because they have an actual concern for social and environmental issues (Jansson & Biel, 2011). According to a survey made by Viviers & Eccles (2012), one reason for investing socially responsible could be explained by *utilitarianism*. Utilitarianism is described as a teleological approach where the rightness of the decisions made occurs from the consequences of the action, i.e. investors dislike and avoid investments that will result in negative consequences for them and will instead approach beneficial investments (Viviers & Eccles, 2012; Jansson & Biel, 2011). Hence, when investors believe that SRI is profitable they will engage in it. Jansson & Biel (2011) have indications supporting that investors using SRI strategies are influenced by beliefs that SRI is associated with potential benefits such as potential niche markets, fewer risks or other financial benefits. Most investors have a belief that SRI funds are beneficial in the long term but not in the short term, even those investors who are not in favor of SRI or using the strategies for SRI actively (Jansson & Biel, 2011). Richardson & Cragg (2010) also mention utilitarianism as a reason for investors to consider ESG (Environmental, Social and Governance) issues when making investment decisions, in this case utilitarianism is referred to when investors see a financial benefit in embracing environmental, social or economic problems. Richardson & Cragg (2010) further mention that a reason for investors to perform shareholder activism or to put pressure on the firms they invest in to improve their sustainability work is that the environmental and social costs of a firm not taking these issues into consideration can quickly become a less profitable investment if natural resources are emptying or if the firm is being subject for a boycott because of the poor working conditions of the employees (Richardson & Cragg, 2012). Utilitarianism was the most common ethical position for SRI according to Viviers & Eccles (2012). Another reason that occurs although not as frequently is *ethical egoist*, which is used when companies act with concerns to egotistical benefits rather than societal, meaning that

investors no longer invest in a socially responsible way because they think it is the right thing to do from a societal perspective but rather because they believe SRI to have a financial benefit (Viviers & Eccles 2012).

3.2.2 Reputational risk & stakeholder pressure

The brand name and goodwill of many large public companies reach between 50-70% of their business value, which means that there is a high risk of damaging the business profile by not investing socially responsible. For investors there is also a reputational risk of being associated with unethical firms or firms that violate international norms (Richardson & Cragg, 2010). Because of this the reputational risk can be argued to be a driver of shareholder activism (which will be explained in more detail later on in this chapter), particularly if the investor owns a relatively big percentage of the firm that behaves badly in terms of CSR (Hendry et al, 2007). Hendry et al (2007) further argue that the main driving force behind shareholder activism is own profit maximization and for institutional investors to become more competitive through positioning against other institutions in order to meet non-financial expectations of customers. To take the analysis of the reputational risk one step further the authors suggest that institutional investors are “watchers being watched” (Hendry et al, 2007, pp. 234) meaning that, apart from the competitive and positioning aspect, they act as responsible owners not because they want to but rather because it is expected of them. Further the primary driving force behind shareholder activism is suggested to be the need to maintain a competitive position by responding to clients’ demands and governmental pressure in terms of e.g. future regulation (Hendry et al, 2007). With an increased awareness from customers of social responsibility, they could refuse to buy products from a company that does not take ethical aspects into consideration, and instead change their purchases to the competitors that do (Hellsten & Mallin, 2006).

3.2.3 Universal ownership

The theory of universal ownership means that every investor own a part of the whole economy, i.e. there is an externalizing effect if there are firms not behaving responsible, the environmental costs affect everyone in the future. Institutional investors should engage in SRI because they will be negatively influenced by the firms not engaging in CSR (Viviers & Eccles, 2012). Richardson & Cragg (2010) mention examples such as large institutional investors who depend on health and long-term sustainability of the entire economy, since

behavior that results in short-term profits often has negative impacts on long-term sustainability it also threatens global investors in a way that they are dependent on economic growth (Richardson & Cragg, 2010).

3.3 Strategies for SRI

Being able to gather non-financial information about businesses and activities executed by companies around the world is of crucial importance for investors that want to pursue SRI (Löhman & Steinholtz, 2004). There are several strategies for this kind of information gathering and according to Viviers & Eccles (2012) three strategies have dominated in being a subject for academic research over the years; negative screening, positive screening and shareholder activism (Viviers & Eccles, 2012).

3.3.1 Negative screening

Historically, negative screening has been the most common strategy for SRI and is often referred to as the first generation of SRI approaches (Renneboog, Horst & Zhang, 2007). Negative screening is also referred to as exclusion and is a strategy of avoiding investments in companies that engage in activities that are not complying with SRI. These are usually activities such as alcohol, tobacco, defense, gambling, pornography and child labor; these are traditional concerns of the church from which SRI originates (Sparkes, 2001; Sparkes & Cowton, 2004; Löhmann & Steinholtz, 2004, pp. 74). Other historical issues are e.g. companies involved in South Africa during the era of apartheid. Negative screening can be sector-based which involves excluding whole sectors from investments, and norms-based where investors evaluate a company according to certain norms to see if they violate them or to see if they have a turnover that originates from sources in compliance with the set up norms (Eurosif 1, 2012; PRI 1). In general norms-based screening is the more complex strategy of the negative screening strategies, the main difference is that instead of *avoiding* companies and sectors according to certain criteria, norms-based screening is based on *evaluating* the business processes and practices according to certain norms and principles to see if the investments can live up to the standards (Eurosif 1, 2012). A problem with this type of screening is that it does not affect the way in which the excluded companies work. With this strategy investors can get their conscience cleared and they can avoid making a profit from non-ethical firms but it does not in any way affect the activities made from the companies that are being avoided (Löhman & Steinholtz, 2004 pp. 74). Another issue with negative screening

is the problem of primary or secondary involvement, investors might want to exclude the defense industry but miss out on the fact that steel or electronics firms might be involved in the supply chain of armaments companies (Michelson et al, 2004). Usually what investors do to address these kinds of issues is that they decide on a maximum percentage of a company's turnover as a threshold and exclusion limit (Sparkes & Cowton, 2004; Sparkes, 2001; Michelson et al, 2004).

3.3.2 Positive screening

Another way of screening is to turn negative screening into positive screening, which according to Renneboog, Horst & Zhang (2007) is the second generation of SRI screening. The strategy of positive screening involves taking positive factors into account when analyzing companies to invest in, here the companies engaging in socially responsible practices are seen as the most attractive investments (Michelson et al, 2004). Examples of positive factors that are taken into account in the positive approach of screening are charitable donations and employment of ethnic minorities (Sparkes & Cowton, 2004). There are however problems with the strategy of positive screening as well, first of all it is easier to know what you don't want than to put words on what you want. It is easier to formulate what to exclude than to evaluate if a company is good or not, a criteria could e.g. be that the companies to invest in must be active in reducing their negative impact on the environment. There is little agreement on what the positive actions of reducing ones negative impact on the environment includes, using this approach means setting up several criteria for what that should be, the amount of information to be gathered is hard to assess and can grow to copious amounts (Sparkes & Cowton, 2004; Löhmann & Steinholtz, 2004, pp. 75-76).

3.3.3 Best-in-class

When using a best-in-class strategy, investments are made in companies seen as the best actors in their sector. This approach means including companies working on improving their social responsibility even though they are operating in a bad sector, hence instead of excluding whole sectors, such as the tobacco industry, investors include the best performing companies in those sectors (Sparkes & Cowell, 2004; Michelson et al, 2004). The companies within a sector are compared against each other instead of firms outside the sector and the best performing companies within the industry are invested in (Michelson et al, 2004). This kind of approach is used in a growing number of SRI indexes such as the Dow Jones Sustainability Index (Sparkes & Cowell, 2004; Löhman & Steinholtz, 2004; Howell, 2008). The challenge for investors using the best-in-class strategy is how to judge and evaluate a

firm's performance, even though the firm is best in its sector it might not meet the requirements for being socially responsible (Michelson et al, 2004; Howell, 2008).

3.3.4 Engagement - Shareholder activism

In general, basing investments on negative criteria i.e. using the negative criteria and avoidance model dominates strategies for SRI (Sparkes & Cowton, 2004). However, if the intentions of investing in accordance with SRI are to influence corporations to improve their CSR then screening is not the right strategy (Löhman & Steinholtz, 2004). Investment decisions can indeed have an external influence on the behavior of corporations, but if the decision of not investing in a corporation because of their poor CSR engagement is effective or not depends on how sensitive the firm's share price is to a changing investor base, i.e. if a firm is more sensitive to a change in the investor base they are believed to be more responsive to ethical investors' avoidance strategy (Michelson et al, 2004). A less passive approach needs to be undertaken to solve the problem of not influencing the firms excluded in the screening strategies. In addition to the screening approaches, engagement is a more preferred strategy for SRI. With this approach investors use their shareholder ownership rights to influence corporate behavior and to make it more socially responsible. The approach of engagement and commitment is often referred to as shareholder activism and is sometimes suggested to be the fourth generation of SRI approaches. Instead of excluding companies that do not live up to the criteria set up by investors, they make investments in companies that are estimated to be profitable (Löhman & Steinholtz, 2004; Sparkes & Cowton, 2004; Renneboog, Horst & Zhang, 2007). The act of shareholder activism might include lobbying of other shareholders and in general the group of institutional investors is using this strategy to a greater extent than e.g. private investors (Michelson et al, 2004). The process of shareholder activism typically begins with a dialogue with corporate executives to make them aware of the CSR concerns of investors. Because of their economic significance the more active approach of shareholder activism is a preferred strategy for institutional investors since this is a more powerful way of influencing corporate executives to engage more in CSR (Sparkes & Cowton, 2004). The avoidance approach have been criticized for reducing diversification in investment portfolios which can make firms miss out on growth opportunities while investing in accordance with SRI, but by using the strategy of engagement investors can still invest in almost all kinds of corporations, by influencing them with their shareholder ownership they are engaged in SRI without making a tradeoff in financial profitability (Löhman & Steinholtz, 2004; Sparkes & Cowton, 2004). The strategy of shareholder activism has however been

criticized as well, some studies of shareholder activism argue that it is very costly to perform shareholder activism and the returns might not be worth the costs, particularly the costs of time (Hendry et al, 2007; Michelson et al, 2004).

According to Renneboog, Horst & Zhang (2007) there is also a possibility of combining negative and positive screening with shareholder activism and commitment.

3.3.5 UN PRI

The lack of a commonly accepted definition of socially responsible investment could make it hard to standardize. Woods and Urwin (2010) state that the UN's Global Compact Principles for Responsible Investment (PRI) initiative is an important part in the movement towards the integration of ESG issues into mainstream investment analysis and decision making. Moreover, they suggest that the continuously growing number of members of UN PRI could make the definition more standardized (Woods & Urwin, 2010). According to the UN PRI webpage, The PRI are constructed by 6 principles. The initiative is an international network of investors working together to put the 6 principles into practice. The PRI were developed by an international group of institutional investors with an intention to find a way to incorporate the increasing relevance of environmental, social and corporate governance issues into investment practices. The main goal of the initiative is to help investors to incorporate issues of sustainability into their investment decisions and ownership practices, by helping investors in sustainability issues the initiative will contribute to a more sustainable global financial system. The principles are voluntary and can be used as guidelines to incorporate ESG issues into investment decisions and strategies. When signing the principles investors publicly commit to adopt and implement all of the principles into their investment decision making, since investors publicly commit to responsible investment when signing the principles it is often used to demonstrate and communicate that they engage in responsible investment (PRI 1; PRI 2).

The principles are:

1. Incorporate ESG issues into investment analysis and decision-making processes
2. Be active owners and incorporate ESG issues into ownership policies and practices
3. Seek appropriate disclosure on ESG issues by the entities in which investments are made

4. Promote acceptance and implementation of the principles within the investment industry
5. Work together to enhance effectiveness in implementing the principles
6. Report on activities and progress towards implementing the principles

Source: PRI 3

3.3.6 Aspects to consider when investing

Fieseler (2011) made an interesting analysis of what is important from an investors point of view, based on an interview survey of companies listed on the German stock market. The conclusion was that to invest in a company, the investors required to an increasing extent that the company works with CSR, not only from a moral and ethical perspective but also from a financial perspective. Before deciding on where to invest, investors considered many different aspects. Among other things business environment in the area, prices on energy and macro-economic aspects, such as the development in the industry, were analyzed. Micro-economic aspects were also considered, such as energy use, environmental issues and competitors strategies. Specifically “pollution prevention, product stewardship and sustainable development” were seen as crucial to the investors. All stakeholders except employees and customers were seen ethically responsible to integrate. Moreover, the investors thought that the companies should have a transparent disclosure of the company as well as strategic goals. The conclusion drawn was that companies that put a lot of resources on CSR have better competitive position, motivate their employees better and in the end yield higher returns (Fieseler, 2011).

3.4 Communication of SRI

From a general perspective when it comes to communicating CSR, it has been common in the past to communicate through the annual financial report. Recently, more and more companies have realized that the CSR report is an important tool for communicating with stakeholders (Weber & Marley, 2012). Making the perspective narrower, Watson (2011) analyses the marketing of ethical and socially responsible investment funds and states that a key strategy when marketing the funds is to reach the customers emotions. Examples of this could be stressing customer’s fears of having a negative impact on the environment, or their ambition to do the right thing (Watson, 2011). In UK, many ethical funds use catch phrases to address customers in this way. These include both positive criteria, where they state that they invest in companies that make a good contribution to society, and negative criteria, where they promise

not to invest in companies that have specified negative actuations on environment and society. Another way of marketing SRI is to make public statements or make SRI a part of the investment policy. The institutional investor *Friends Provident* states that ‘we will be using our influence as an investor to encourage companies to improve the way they (investee companies) manage environmental and ethical issues’ (Hellsten & Mallin, 2006). Other popular aspects when trying to reach more customers are to emphasize that SRI generates higher returns and that SRI has grown remarkably (Watson, 2011). To communicate how the SRI funds would outperform the market is another common way of addressing the household investors (Richardson & Cragg, 2010). According to Hendry et al (2007), all active investors use index-based benchmarks to measure and market their performance (Hendry et al, 2007). This makes it reasonable that many stock market indices for companies that apply SRI have emerged. One example is the FTSE4Good Indices who measures the index based on human rights, stakeholder relations and the environmental impact of the company’s activities. The index is based on four benchmarks and four tradable indices and measures the UK, US, Europe and Global markets. Another example is the Dow Jones Sustainability Indices who exclusively measures and benchmarks the leading sustainability companies around the world (Hellsten & Mallin, 2006). Companies can also engage in organizations to communicate that they work with SRI as well as to get support from others. The Association of British Insurers (ABI) is a forum for investors and individuals in the insurance market (ABI, 2013). Hellsten & Mallin (2006) describe that ABI has publicized guidelines on SRI which, among other things, recommend that they gather adequate information before making an investment decision. The risk of investing should be appropriately managed by for example performance measurement systems. The guidelines also state that the company’s policy and how they have chosen their investment objects should be reported in the annual report, and not only on the website or on a separate report (Hellsten & Mallin, 2006).

4. Empirical Findings

In the empirical findings, we will present the phenomena we have found when investigating the banks. The aim is to give answers to our research questions and to present a foundation for the analysis and conclusion. The quotes used is taken from both interviews and from the banks webpages, when it is taken from an interview it is marked with “respondent” and the name of the bank, otherwise we use only the name of the bank.

4.1 Drivers

What are the main drivers behind SRI for Swedish banks?

“Not including sustainability issues in your investment analysis would be to miss out on important factors” - Respondents DNB

Sustainability risks are financial risks, companies that do not take these issues into account will not be a good investment in the future. The banks in this study all agree on the fact that the obvious main task for a fund manager is to find firms that will yield the best possible returns. All of the banks believe that firms who can handle risks and opportunities in the area of sustainability are the companies that will have a better competitive position in the long run.

“We consider acting responsibly a prerequisite for a company to achieve long-term good returns” - Nordea

All of the banks believe that SRI is a good business opportunity and all of the respondents except one believe that SRI is associated with financial benefits. Financial benefits in this context means avoiding future costs associated with investing in a company with no environmental or sustainability concerns but financial benefits also refers to the belief that SRI will actually yield better long-term profits. One bank use this argument as part of their strategy when trying to influence portfolio companies, they state that one driver is to try to influence portfolio companies with the arguments that improved CSR will yield a better competitive position and long term profits.

“One purpose of the sustainability work is to keep improving profitability by helping shareholders to achieve their goals of a sustainable return” - SEB

An important driver for all of the banks is to offer sustainability funds in order to meet clients' needs. To do this they need to reduce risk and find good investment possibilities. They all agree on this, although the perception of what meeting clients demands or needs actually means somewhat differs; it could be to offer a sustainable product range, to make clients feel comfortable with how the bank invest their money, or to give clients a good and sustainable return. The clients requesting sustainability funds for their investments are mainly institutional investors, such as companies, organizations and municipalities who experience pressure from the society to act environmentally and socially responsible. Not responding to stakeholder demands or to be connected to a firm with a bad reputation in the area of sustainability is believed to be very costly in the future.

“The main drivers for SRI is customer demand and we have a strong belief that SRI is a good business opportunity that yields long term profitability” - Respondent SEB

All of the banks feel a pressure from the society to act responsible, to be part of making the world better and to contribute to sustainable business and long term growth, while at the same time protecting the environment and making a positive contribution to the society.

“We aim to contribute to the creation of economically, environmentally and socially sustainable development. Through this we want to contribute positively to the society and its development.” - Handelsbanken

4.2 Strategies for SRI

What strategies do Swedish banks use when investing socially responsible?

“The UN PRI has grown to become a good indication of how asset managers and asset owners work with sustainability issues” - Handelsbanken

The banks have all signed up for UN PRI which has a great impact on their strategies. All of the banks work with sustainability throughout all of their funds, for most of the banks it is a natural part of the overall financial analysis, some of them have an outspoken integration of an ESG-analysis in all of their investments.

“We have specialized ESG analysts who function as a support for the international investment teams in the examination of the most important ESG indicators, in combination with external research of the companies this is one of the factors on which the final investment decision is based.” - SEB

Moreover the main strategy is to influence the portfolio companies through active ownership and engagement, which is in line with UN PRI. By doing this, they want the companies to improve their ESG-issues.

“The goal with active ownership is to affect the companies in a desirable direction” - DNB

All of the banks state that they rather have an ongoing dialogue to influence companies than to sell or exclude. In this process, they first use dialogues but when the dialogues are not successful the banks exclude the firm completely from investments. The same procedure goes for the sustainability funds, if a firm impair CSR the banks try to influence through dialogue but if it does not develop in a way they strive for the company is excluded from the sustainability funds but is kept in the traditional funds with an ongoing dialogue to improve and make it to the sustainability funds again. Some banks exercise proactive engagement in industries they find particularly interesting for them.

We have a solid foundation for all of the funds where we put pressure on the portfolio companies and not necessarily screen the bad ones out completely but instead try to proactively engage in those companies in order to influence them to improve. - Swedbank Robur

Moreover, one of the banks mentioned that they visit some of the portfolio companies at their home markets to get an understanding of how they work with ESG-issues. The active ownership is further practiced through participating and voting at annual general meetings of the portfolio companies. If this participation is adequate or not depends on the amount of

shares the bank have in that particular company and if they have a significant possibility to impact. The companies mainly choose to engage in active ownership in companies that break international norms:

“Nordea prioritize active ownership in companies that break international norms within environmental protection, human rights, labor rights and business ethics” - Nordea

All of the banks use negative screening in one way or another but they differ in what they screen, some only have negative screening in the sustainability funds whereas others avoid investments in firms with certain business activities for all of their funds. For example DNB mention on their webpage that:

“Companies that are involved in controversial weapons (landmines, nuclear weapons, anti-personnel mines and cluster weapons), or who produce tobacco or pornography are excluded from investment” - DNB

The level of screening differs, but most of the banks use a combination of negative and positive screening and engagement for the sustainability funds and after the screening process they use a best-in-class strategy in order to get funds where only the best firms are qualified. In the sustainability funds, sustainability is clearly the main driver for investment. For the sustainability funds all of the banks exclude firms that violate international norms and firms with business activities in sectors with controversial products such as tobacco, alcohol, pornography, defense and gambling. The banks stated that they tailor their funds in accordance with the customers' demand.

“We support sustainable development by offering investment products designed to meet a variety of concerns and responsible investment preferences among SEB's customers.” - SEB

Apart from own information gathering and analyzing, all of the banks use external consultants and sources of information or guidelines to some extent. This could be for example Ethix SRI advisors, who help investors with developing and implementing their policies for SRI, and MSCI Inc, who is a provider of investment decision support tools. When they try to influence the companies through dialogues, they accomplish this to a great extent together with other investors. It is common to use organizations that try to bring together investors who want to

have a dialogue with portfolio companies, for example Hermes Pensions Management Limited.

4.3 Communication

What do Swedish banks want to accomplish by communicating and informing about their investments made in a socially responsible way?

The main driver for banks to communicate strategies for SRI is to show customers how they work and by this make the customers more comfortable with how their money is managed.

*“We want to achieve highest possible transparency and trust in the stock market”
- Swedbank Robur*

Many of the customers are institutions who experience a pressure of being sustainable and responsible, and they need to show this by for example their sustainability- and CSR-reports. The clients often have e.g. CSR-policies with different requirements or have a strong will to be environmentally friendly. Therefore it is important for the banks to communicate their strategies and how they perform SRI to show that they meet the needs and requirements of these kinds of clients. By doing this, the customers themselves can show to their stakeholders that they invest socially responsible in accordance with their different requirements and policies.

“The aim of our Robur Ethica fund family is to offer our customers the opportunity to invest in companies that show in a credible manner that they can handle their social, ethical and environmental risks.” - Swedbank Robur

Except this shared driver, some of the banks stated that they want to show their stakeholders, e.g. customers, shareholders, employees and society, that they take sustainability issues seriously.

We want to show our clients that we take sustainability seriously by informing how we work with sustainability in our funds. - Respondents DNB

One bank mentioned that they want to inspire portfolio companies to work with sustainability issues by informing about the drivers behind their investment decisions. By doing this, they can show the companies that it is important with these issues if they want them as investors. The banks disagree to if informing about and communicating their strategies is a driving force behind addressing new customers. Some said it is a driver while others stated that it is not since the way they get new customers is a more complicated process that includes personal consultations.

How do the banks communicate and inform about their strategies for SRI?

How and what do they inform about?

In general, the banks use their webpages as the main information tool for communicating SRI strategies. They do this by describing briefly what they do on special SRI-pages or fund pages. To give more detailed information, they publish CSR-reports and sustainability reports, and some also have reports specifically for SRI. The banks are transparent about their strategies and they provide information about their active ownership engagement, although the level of transparency differs slightly. Most of the banks are very detailed about how they perform active ownership and demonstrate examples of what companies they successfully have had a dialogue with to make an improvement and how. Some banks reveal information about who they currently have an active dialogue with in public and some give the information privately to the customers requesting it. In the different reports, they also describe the sustainability funds as a special fund category, they explain the requirements and how they work with these funds. Additionally, many have a part at their webpage describing the funds they provide where the customers can get relevant information about the different funds.

Moreover, most of them give information about how many companies they have excluded along with the reasons and some even mention the companies by name. The banks present other types of information as well, mostly more detailed in their reports, but these differ and thus it is not valid as a general pattern. Except for information on their webpages, some of the banks send written information to their customers, for example monthly fund letters or customer letters. Moreover, three out of the five banks are active in the public debate and make public statements in media. The statements are mostly about connecting to a specific

question or issue about SRI, such as a portfolio company in scandal. None of the banks state that they make public statements to market their funds or that they market them in a traditional way.

How do they communicate?

When communicating with their customers, the banks separate between institutional customers and private customers. The banks communicate privately to their institutional customers through individual meetings as well as provide written information such as newsletters and reports. Some of the banks also mention that they communicate through seminars which they arrange for multiple clients. When communicating with private customers, the communication is mainly at their bank offices through private consultations. Another way of communicating their strategies as well as the phenomena of SRI with other stakeholders is to involve in voluntary organizations such as Swesif, the Swedish version of EUROSIF, and UNEP FI, the UN environmental program.

4.4 Summary of empirical findings

All the banks have more or less the same drivers for SRI; they want to contribute to a better society, meet their customers' needs and they believe that SRI is a financial benefit. The strategies differ whether the funds are sustainability funds or not. When it comes to the traditional funds, all of the banks work with active ownership in order to influence the portfolio companies. In the sustainability funds a combination of engagement, screening and best-in-class is more common. The banks mainly work in the same way with providing information and communicating their strategies. The most important way of informing about their strategies for SRI is through their webpages and their CSR-reports and SRI-reports. The banks communicate their strategies with their institutional customers by having private meetings and give private information, and they communicate with their private customers through consultations through their offices. Other ways of informing and communicating SRI are through seminars, public statements, videos and blogs. The level of transparency of the information provided publicly differs.

5. Analysis

In this chapter, we will analyze our empirical findings from the perspective of the previous research we presented in the theoretical framework. The aim is to give the reader an overview of the connections we find to previous research as well as explain our new findings.

5.1 Drivers

All of the banks are more or less in line with what is described by many researchers as utilitarianism since they all have a belief that investing in accordance with SRI will benefit them in the longer term (e.g. Viviers & Eccles, 2012; Richardson & Cragg, 2010). All of the respondents agree with Richardson & Cragg (2010) stating that one of these long-term benefits is to be able to avoid companies that most likely will meet high environmental or social costs in the future, these are costs that are associated with for instance natural resource scarcity or boycotts. All of the respondents stated that the banks engage in SRI partly because they want to contribute to the wellbeing of the society which means that neither of the banks seems to act in accordance with ethical egoism. Ethical egoism is an ethical position described by Viviers & Eccles (2012) where an investor no longer invest socially responsible because of the societal good but only because they believe it will yield in financial benefits.

Moreover, if interpreting reputational risk and stakeholder pressure as in satisfying customers, all the banks mentioned client demand as a driving force for SRI, some of them even as the main driver. For those, this is in line with what Hendry et al (2007) state; that responding to clients demands is the main driving force behind the strategy of shareholder activism. Some of the banks seemed to apprehend a responsibility towards the clients to influence portfolio companies and to offer SRI funds in order to give the clients best possible long-term return. Hendry et al (2007) further argues that the banks involve in SRI because of their own profit maximization and better competitive position. This is validated by two of the banks in this study, one of these states that the purpose of the sustainability work is to keep improving profitability by helping shareholders to achieve their goal of a sustainable return. The other is trying to influence and inspire their portfolio companies to improve CSR with the arguments that it will make them more profitable and give them a better competitive position. They did not mention their own competitive position as a bank but when their portfolio companies

become more profitable, so do the funds provided by the bank. Some of the banks also mentioned a hope of attracting new clients by showing what they do in terms of SRI, more clients would result in a better competitive position.

The fact that all of the banks feel that not investing responsibly and investing in firms that have a bad reputation in terms of being environmentally or sustainably responsible will result in major costs in the future can be supported by researchers stating that universal ownership is a driver for SRI. Universal ownership is a view that investors own part of the whole economy and that they depend on the health and long-term sustainability of the entire economy (Viviers & Eccles 2012; Richardson & Cragg 2010). All of the banks in this study want to contribute to the welfare of the society and they believe that firms behaving responsibly are those who will have a better long-term competitive position.

5.2 Strategy

The problem that the lack of a common definition for SRI makes it hard to standardize has been discussed earlier in this thesis. The banks in this study all signed up for the UN PRI to use it as a foundation for the screening processes or as a guideline in developing SRI strategies, this can be seen as a step towards a more standardized definition since Woods & Urwin (2010), amongst others, suggest that the growing number of members is an important step towards a standardization of the definition of SRI.

The preferred strategy in all of the banks is to work with active ownership and engagement, this is supported in the literature where several authors state that a less passive approach needs to be undertaken in order to influence corporations to improve CSR (e.g. Löhman & Steinholtz 2004; Sparkes & Cowton 2004).

In the cases where negative screening is used we only found one bank that did negative screening in accordance with what was described in the literature (e.g. Sparkes 2001; Michelson et al 2004); namely to decide on a maximum percentage as a threshold, the rest of the banks seem to exclude firms with activities in the screening zone completely.

The best-in-class strategy is widely used by all of the banks, but surprisingly none of the banks have a strategy that completely complies with the way researchers describe the best-in-class strategy. The banks always use best-in-class together with a screening strategy, they first have a screening process that screens out certain sectors and firms, this is followed by a process that would be called a best-in-sector strategy where they choose only the best performing firms to invest in. In the literature however, this strategy is described as a strategy where investors can include companies that are improving their social responsibility even though they are operating in a bad sector (Sparkes & Cowell 2004; Michelson et al 2004). No bank used this strategy on its own but only in coordination with a screening process. Another interesting conclusion is that, through the combination, the banks can avoid the difficulty that when a firm is best in its sector, it is not necessarily meeting the requirements of being socially responsible (Michelson et al 2004; Howell 2008). Since many companies are avoided through the screening process there is no need to worry about this problem. The combination of screening and best-in-class was very common among the banks but in the literature we studied there was only one paper that briefly mentioned that opportunity (Renneboog, Horst & Zhang, 2007).

In line with Fieseler's (2011) conclusion in his study of the German stock market, the banks believed companies that put a lot of resources on CSR to have a better competitive position and yield higher return. Moreover, the banks also agreed with the study suggesting that companies should work with CSR not only from an ethical and moral perspective but also from a financial perspective.

5.3 Communication

For all the banks the CSR-report is an important tool for communicating with stakeholders, which is in line with what Weber & Marley (2012) state. Additionally, we found that some of the banks used specific reports on SRI which are even more detailed. Hellsten & Mallin (2006) describe that making public statements is a way of marketing SRI-funds. We found that some of the banks do make public statements although not with the purpose of marketing their traditional funds or sustainability funds but rather by making general statements about SRI. We found that the banks engage in organizations to communicate that they work with SRI, which is something Hellsten & Mallin (2006) mention as well. From our empirical

findings, we can conclude that the most important tool for communication is through the banks' webpages, however communicating SRI through webpages seems to be a field of research that is not yet covered in the literature and we did not find any support for this in previous research. Moreover, we found other communication tools, for example one bank publishes videos of their SRI work in the sustainability funds as well as has a fund blog where they write about SRI. We interpreted from the interviews that many of the retail customers do not have time or are not interested in reading a whole sustainability report and thereby might lose important information. We believe this should be a reason for finding new inventive ways of reaching the retail customers. Hellsten & Mallin (2006) describe that it is common amongst ethical funds in the UK to use catch phrases with positive and negative criteria to reach customers. We did not find that the Swedish banks use catch phrases, but we did find that they try to communicate positive and negative criteria for SRI; positive in a way that SRI is good for both society as well as profitable, and negative in a way that they promise not to invest in sectors by certain criteria. Watson (2011) states that a key strategy when marketing funds is to reach the customers emotions, when analyzing if and how the banks try to do this, we interpreted that all of them do this by stressing the sense of security and satisfaction. They accomplish this by being more or less transparent and give private information about how they manage the funds to their customers, and some banks use other methods as well, like the bank with the videos and fund blog.

6. Conclusion

All the banks state that a driver for engaging in SRI is that they want to contribute to a better society and that SRI in the long term generates as much profit as other investments. Our initial thought was that this driver would make the banks try to affect their customers to invest in as socially responsible funds as possible, i.e. sustainability funds. Another major driver seems to be meeting client demand and according to the banks, the demand from institutional customers has increased significantly, which to a certain extent depends on pressure from society. If the aim is to meet client demand this could be an indication that the banks engage in SRI because it is expected from them and not because they want to. In order to reach the

goals of contributing to a sustainable development of the society and to meet customer demands, there is a need to communicate and inform about SRI. Is it possible that the banks in a close future will strive to make the communication and information about their strategies for SRI more easily available? The communication to the institutional customers occurs mainly privately and through tailored information, which means that they probably have more information provided about the funds and thus they would not necessarily need new ways of finding out about the banks' strategies. A phenomenon seems to be that the fund managers communicate with institutional customers and that the bank offices communicate with the retail customers. During our interviews, we interpreted that a potential problem in the communication between the banks and the retail customers could be that the financial advisors at the bank offices, who communicate with their retail customers, don't feel comfortable enough describing and suggesting sustainability funds. A way of addressing this potential problem could be to use more internal educations from the fund managers to the advisors so that they can feel comfortable in informing the private customers. This in combination with new innovative ways of informing the retail customers could possibly change their perception of sustainability funds and SRI in general.

But what about the retail customers, are they not interested in if their money are managed in a socially responsible way? Some of the respondents we interviewed said that when asking retail customers, most of them would not doubt that investing socially responsible sounds obvious. But when it comes to choosing a sustainability fund, few fulfill the statement. Could this outcome appear because of credibility problems, i.e. that they are not enough convinced that sustainability funds are as good as traditional funds in terms of long-term profit-maximization? Or could it be that the retail customers do not have enough information about the banks' strategies for SRI? The respondent from the bank that provides videos and a fund blog at the webpage mentioned these information-tools as ways of communicating and informing what they do to the customers that they do not regularly meet face-to-face (the retail customer) as well as making the information easily available for anyone. Another bank writes in their sustainability report that they want the same information to be available whichever meeting point the customer chooses, although their mobile phone application does not provide information about their SRI engagement, which the respondent said is a development area. Moreover, we found that none of the banks promote sustainability funds or traditional funds using traditional marketing. If the banks engage in SRI to contribute to a better society as well as believe it as a financial benefit, we find it paradoxical to not actively

promote their sustainability funds and by this, try to contribute to a change in the whole society's savings. We believe that actively promoting their sustainability funds would be a statement towards showing the world that they are serious about SRI. We therefore suggest, except for internal education, traditional marketing of sustainability funds as a development area.

Suggestions for further research

We suggest further research to include smaller banks in a similar study to investigate if the phenomena we found for Swedish bigger banks can be valid for Swedish banks in general. We also suggest further research within the area of communicating and marketing SRI. It would be interesting to see if actively promoting sustainability funds to retail customers would increase the awareness and saving in sustainability funds. We would suggest questions like; what affect do the webpages have on retail customers in terms of informing and communicating sustainability funds? Would active marketing of sustainability funds affect the perception of SRI among retail customers?

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Appendix

INTERVIEW MATERIAL

General interview questions

- Vad är era största drivkrafter bakom att göra hållbara och ansvarsfulla investeringar?
- Vilka kommunikerar ni till att ni jobbar med hållbara och ansvarsfulla investeringar?
- Vad vill ni uppnå med att kommunicera detta?
- Varför anser ni att det är viktigt att kommunicera hur ni arbetar för att påverka bolag att bli mer hållbara?
- Vad kommunikerar ni när det kommer till ert arbete med hållbara och ansvarsfulla investeringar?
- Hur kommunikerar ni era strategier för hållbara och ansvarsfulla investeringar?