



UNIVERSITY OF GOTHENBURG

SCHOOL OF BUSINESS, ECONOMICS AND LAW

Swedish Institutional Investors

&

SRI

*A qualitative study of the investment process and stakeholder engagement;
Differences between investing in Swedish and foreign companies*

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Authors

Edvard Eriksson 901123-

Johan Olsson 870831-

Supervisor

Richard Nakamura

Abstract

The aim and purpose of this thesis is to investigate if there are any differences between countries and different funds in the investment process of Swedish institutional investors. Further, we want to investigate how Swedish institutional investors engage in active ownership in different countries as well as if there are any differences in how this work is done practically. Sustainability is today a hot topic with a growing interest from both investors and companies.

This study has been carried out through semi-structured telephone interviews with representatives from four of Sweden's largest institutional investors. The responses have then been transcribed and analyzed in the light of relevant theories such as sustainability, active ownership and stakeholder theory to mention some.

The conclusions of this study indicate that there are differences in how the investment process is carried out in different countries as well as why they exist. There are also differences in the selection process between sustainability funds and other funds. This study further points out the differences in how institutional investors approach companies in active ownership depending on what country the companies originate from.

Abbreviations

CSR – Corporate Social Responsibility

ESG – Environmental, Social and Governance

GRI – Global Reporting Initiative

NGO – Non-governmental Organisation

NPV – Net Present Value

PRI – Principles for Responsible Investment

SRI – Socially Responsible Investment

WHO – World Health Organization

Keywords

Corporate Social Responsibility, institutional investors, active ownership, SRI, stakeholders

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1. Introduction

1.1. Corporate Social Responsibility

According to Porter & Kramer (2006), Corporate Social Responsibility (CSR) is becoming an inescapable priority for companies in every country to engage in. This is because companies now must account for the social consequences of their actions, e.g. pollution prevention or issues regarding working conditions.

A pioneer in the field of CSR was the Norwegian former politician and Director-General of WHO, the World Health Organization, Dr. Gro Harlem Brundtland. In 1987 she wrote “*Our common future*” which is the most quoted report on this area (WHO, 2014). In her report, Brundtland defines sustainable development, as: “*Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs*” (UNWCED, 1987). P. 41

The European commission defines CSR as “*the responsibility of enterprises for their impacts on society*” (European commission, 2011). This is just one in a wide range of definitions of CSR. The European Commission further explains that corporations “*should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders*” (European commission, 2014).

In 1994 John Elkington introduced the Triple Bottom Line. The Triple Bottom Line focuses on the bottom line of three different Ps, i.e. Profit, People and Planet. The concept of Triple Bottom Line is to, rather than just measure the profit, measure what has been achieved in a social and environmental context. Only when all three Ps, the triple bottom line, is fulfilled the company is taking full responsibility for its business. Parallels can be drawn to the balanced scorecard and the thought of “what you measure is what you get”. One other reason for companies to work according to the ideas connected to Triple Bottom Line is that it can lead to competitive advantage by balancing economic progress, social responsibility and environmental protection. To be able to gain economic growth in a long-term perspective, companies needs to grow with social and economical sustainability (The Economist, 2009; Epstein, 2008).

Socially Responsible Investment (SRI) is defined in various ways in different literatures. Löhman & Steinholtz (2004) writes about it as Social Responsible Investments. Another definition is made by Fondbolagens förening (2012) who defines it as Sustainable and Responsible Investments.

Sustainability refers to long-term sustainable investments with regards taken to future generations. Responsibility is referred to issues such as environment, labor and human rights. Other studies (Renneboog et al., 2008; Sparkes & Cowton, 2004; Viviers & Eccles, 2012) use the term Socially Responsible Investments in their work. According to Michelson et al. (2004) there are multiple definitions of what social responsibility actually is and what it defines. They state that this could be problematic when it comes to analyzing different strategies of investment, like SRI.

Under the umbrella term SRI you find Environmental, Social and Governance (ESG) issues. This includes criteria regarding environmental responsibilities, social responsibility and corporate governance and the focus on ESG have increased in recent years. Viviers & Eccles (2012) found in their article that there are multiple names and definitions of investment practices that include ESG considerations. One finding in their research was that the majority of investment practices that included ESG were labeled as Socially Responsible Investments. Woods & Urwin (2010), in contrary to other researchers, state that the various definitions of sustainability and SRI do not make it harder when analyzing and comparing different investment strategies since they basically have the same meaning. Based on the fact that SRI and ESG can have different meanings, in all of our interviews we asked the respondents to describe how they valued SRI and ESG. Their definitions and their interpretation of the words are found in chapter four and a discussion about the effect on the methodological difficulties these various meanings could have on this thesis are found in chapter three.

To present their sustainability work companies often chose to report their progress in annual sustainable reports. In these reports the primary goal is to show what impact their business have on the social, economic and environmental context they are a part of and hence make changes toward a long-term sustainable world. To make the sustainability work easier to report, and easier for consumers to understand, different frameworks have been created. One of these is the Global Reporting Initiative (GRI) that consists of guidelines, principles and standards that can be used when designing and composing the sustainability report (Global Reporting Initiative, 2014).

1.1.1. Fund savings and institutional investors

There are multiple types of funds which differ in their aim, investment horizon, risk management and also investment strategies. A fund is a collection of different types of securities that investors invest in to purchase securities. Every investor gets ownership and control of their own shares in the fund. Different types of funds include mutual funds, interest funds and mixed funds. Mutual funds invest the majority of the capital in stocks and the investment horizon is recommended to

5-7 years. A mutual fund could have a strategy to invest in national companies, e.g. “Sverigefond”, it could also invest globally, e.g. “globalfond” which means that the fund invest in stocks all over the world. Some funds also focus their investments to a certain business sector, e.g. IT, medicine or manufacturing industry. Mutual funds carry the greatest risk among the different types of funds and also the greatest possible return. Mutual funds however, present less risk for investors compared to trading stocks on a stock market. A mutual fund must place its capital in a minimum of 16 companies and by doing that, the mutual fund will carry less risk (Fondkollen, 2014).

All of the institutional investors that are included in this study have a vast selection of different funds and they also present funds that are classified as sustainable in different ways. There are differences in how they act when deciding to invest in different companies depending on if they are investing for their sustainability funds or in a mutual fund. All of the institutional investors have a number of companies they have excluded to invest in. This is based on conventions and guidelines from United Nations that investors should chose not to invest in companies that in some ways are linked (trough e.g. production or distribution) to anti-personnel mines, cluster munitions, chemical and biological weapons. These companies are excluded from all funds, not just the sustainability funds (Swedbank Robur, 2013; SEB, 2014; Handelsbanken, 2013:2; Nordea Asset Management, 2013).

In Sweden, capital saved in the form of different funds has never been as high as it is today. The collected capital invested in different funds at the end of 2013 was 2 158 billion Swedish crowns according to SCB (2014). Approximately 53 % of all capital invested were in mutual funds which makes this type the most common in Sweden. On the Swedish market there are approximately 75 different actors and a total of circa 5000 funds for the investor to choose from. The fund companies of the four major banks in Sweden are the four major actors on the Swedish fund market. At the end of 2011 they collectively accounted for 60 % of all capital invested in funds (Swedish Bankers, 2013).

1.1.2. Stakeholders

Every company that produces a product or offers a service to their customers has multiple stakeholders, not just its shareholders. The stakeholder theory was developed from strategic management literature and it states that businesses have obligations to others than just its shareholders. According to Freeman (1984) stakeholders are defined as “*any group or individual who can affect or is affected by the achievement of the organization’s objective.*” To what extent a company should

engage with its stakeholders varies and depends in part on how much existing trust or distrust the company has. There are also variations in how the companies engage with their stakeholders and when they start with their stakeholder engagement. Some companies engage regularly with stakeholders to get information on how the public think about their company. Other times, companies are surprised that stakeholders think they have sustainability issues and realize too late that early stakeholder engagement would have given them a chance to work with these issues before they encounter distrust issues from stakeholders (Epstein, 2004). According to Nair & Ndubisi (2011) a firm's stakeholders are e.g. customers, leadership/management, active public, financial institutions and Non-governmental Organisations (NGOs).

Sustainability is something that companies are working with and they have been doing so for some years. Pressure on companies to work with sustainability is coming from multiple directions e.g. Civil Society Organizations, Non-Governmental Organizations, politicians, customers and investors (Fondbolagens förening, 2012). Among the most well known NGOs we see Greenpeace, WWF and Swedish "Naturskyddsföreningen". All these organizations can make companies work with sustainability by e.g. presenting the companies negative impact on the environment and trying to enlighten the public of how the company is behaving and hence affect companies to start with sustainability work. According to Arenas et al. (2009) NGOs can also engage in business and corporations to help them with their CSR engagement and developing new CSR standards together. This is a relatively new form of collaboration at it marks a change in the governance environment according to Arenas et al. (2009).

It is not only NGOs that can work together with companies in their work with sustainability and its development. Individual investors and institutional owners like fund managers have the ability to act as active owners and according to UN-PRI (2012), institutional investors should act as active owners. By acting as an active owner, investors can encourage and aid companies in their ESG-related work. This work can be done in numerous ways and investors can choose different strategies in how to act as active owners. Large institutional owners can be active in visiting and voting at annual general meetings and they can also visit companies and evaluate their work on-site in different parts of the world. This is of course hard for private investors but by investing in funds from institutional investors, who work with this, private investors indirectly get the possibility to have an impact on large companies and their CSR and ESG work.

1.2. Problem discussion

The implementation and use of CSR has a variety of reasons; it could be for strategic reasons such as competitiveness and cost savings, to create innovation or to take on an environmental responsibility (Ariadne, 2014). Further, when looking at sustainability, the aim is to create economic, social and environmental sustainability and the focus lies on long term perspectives. For many companies sustainable reporting has become a recurrent matter to present the progress and what has been done. Through different initiatives, such as the Global Reporting Initiative (GRI), the sustainable reporting is continuously taking steps forward (Fondbolagens förening, 2012). However, according to analysis the work with sustainable reporting is not always working in the way it is meant to. When using the guidelines from GRI companies are supposed to meet a number of indicators that should also be followed up with numbers. Nevertheless, the indicators are not always complemented with these numbers, which can make the report less legitimate. Whether or not the lack of adequate numbers is intentional or not is hard to tell since qualitative statements often better can express the ratio, for e.g. gender inequality, than quantitative data (The conversation, 2014).

In recent months we have seen different scandals regarding child labor and other social parameters in various companies, e.g. Stora Enso and H&M (Veckans Affärer, 2014; Bloomberg, 2013). In a world where one scandal is followed by another one, you can ask the question whether or not represented data really represents the reality. Both Stora Enso and H&M are listed on Nasdaq OMX Stockholm Large Cap as some of the largest companies on the Swedish stock exchange market (Nasdaq OMX, 2014). H&M are also looked upon as forerunners in sustainability work by many organizations and fund managers. Their sustainability manager, Helena Helmersson, recently was appointed the most powerful woman in the Swedish business world (Veckans Affärer, 2014:2). Another example is that H&M shares stands for the largest investment in both SEB and Swedbank Robur's Swedish ethic funds (Swedbank Robur, 2014; SEB, 2014:2). This makes the question about if companies are as sustainable as they claim and if their investments are equally responsible very relevant. This is just examples of scandals that recently have occurred in companies that otherwise are considered to be sustainable and these events might not be reasons enough to exclude them from ethical or sustainable funds. However, it would be interesting to know how fund managers and institutional investors are dealing with scandals like these and other events that might question a company's sustainability in companies they are invested in. In what ways are they active in their ownership and do they think that scandals like these are enough to exclude them as companies they would consider investing in.

Further, it would be interesting to know if different fund managers would consider investing in a sustainable company for their other funds and not their ethical ones.

Statman & Glushkov (2009) discuss whether or not a company can be both socially responsible and still perform a positive return. The authors present three different theories that they call “doing well while doing good”, “doing good but not well” and “no effect”. In their research, Statman & Glushkov (2009) found that all three effects are true but in different perspectives. “Doing well while doing good” is true for companies scoring high on social responsibility related to employee relations and environment. The “doing good but not well” is correct in the sense that socially responsible portfolios that use negative screening have a disadvantage in comparison to conventional funds that thereby result in a lower expected return. The “no effect” is further verified due to the net effect of the “doing well while doing good” and “doing well but not good” cancel each other out. Further, Hamilton et al. (1993) also found in their research that the social responsibility has no effect on the expected return of a portfolio. An interesting thought would be to investigate how institutional investors perceive the sustainability work. Do they have a different opinion and perception of the reality? Are the companies that “do good” more attractive to invest in even if they have the same, or lower, return?

For institutional owners, it can be hard to control how companies are working with sustainability in all its forms. Even if the companies are reporting according to the GRI guidelines there are many different levels of information provided and not all of the information is externally audited. For this reason, it can be relevant for investors to do a deeper and more sufficient investment analysis before deciding to invest in a company or not, if wanting to make an investment that is classified as an SRI.

1.3. Research question and purpose

Current research presents how companies can work with various sustainability related questions in a vast range of activities and it also presents how investors and institutional investors should work in order to make SRIs (Viviers & Eccles, 2012; Epstein, 2008; Global Reporting Initiative, 2014; Adger et al., 2006; Alm, 2013; Benson & Humphrey, 2008). The purpose of this thesis is to investigate if there are any differences in the institutional investors’ investment process between countries and various funds, how different Swedish institutional investors engage in active ownership in different countries and if there are any differences in and how this work is done practically. To fulfill this purpose our research question is as follows;

- Are there any differences in how Swedish institutional investors evaluates companies to invest in throughout the investment process and following ownership?

1.4. Delimitations

Despite the fact that this study has only examined four of the larger institutional investors in Sweden, these four investors accounted for 60 % of all managed capital assets in Sweden at the end of 2012 (Swedish Bankers, 2013:2). It would have been interesting to examine how the majority of Sweden's institutional investors are working with these questions but since the four included companies have the majority of all capital under management we do not see this as a limitation. We were in contact with some minor investors as well and the majority of them replied that they had not worked with sustainability long enough to answer our questions or that they primarily invested in Swedish companies and therefore did not want to participate. Therefore we chose not to include any minor investors. We have chosen to only look at Swedish institutional investors to get easier access to material and respondents.

One possible limitation is that the respondents might chose to exclude parts of their work that they feel that they are not so successful with or that they exaggerate about the good things their company does. We can control some things they speak about, e.g. conventions that they are working under but all information provided are impossible to control. Some included investors write about field trips on their websites but others chose not to market these types of activities and that is why it is hard for us to control the verity in these sayings.

This study has a qualitative approach which presents some aspects that can be questioned e.g. generalization and, as previously mentioned, exaggeration coming from the interviews. They speak about their own companies and what actions they chose to take, or not to take, and this information can be hard to control by us or other external actors. This report is also limited to the fact that it examines Swedish institutional investors and their thoughts might be unique to the Swedish context and it might be differences in how institutional investors from other countries think and act. The purpose of this study clearly states that it is to examine how Swedish institutional investors act and therefore we do not see this as a limitation.

1.5. Thesis structure

The first chapter in this thesis is structured to give the reader a brief introduction to the subject of CSR and the various aspects and content of the term sustainability, including Socially Responsible Investments. The introduction leads to a discussion regarding previous research conducted in the area of corporate sustainability and active ownership, which lead up to the research question of this study.

The second chapter in this study furthermore presents relevant theories connected to the purpose of this study. Theories regarding sustainable investments and institutional investors' actions and responsibilities together with theories regarding ESG and stakeholders are presented.

The third chapter includes the method used for this study. A description about how this study was conducted and argumentation for this study's trustworthiness is found under this chapter.

The fourth chapter, which includes the empirical data, is collected from reports originating from the institutional investors websites and telephone interviews with analysts and fund managers in the institutional investors ESG teams.

The fifth chapter will finally present an analysis where the empirical data from the respondents are compared to relevant research with connections to our chosen purpose.

In the sixth and final chapter we present the answer to our research question together with suggestions for further research.

References and an appendix with the interview questions used are found in the end of this study.

2. Theory

2.1. Institutional Investor Responsibilities

A cornerstone in most corporate theory is the principal-agent relationship. This relationship goes way back and has been applied by scholars in accounting, economics as well as marketing (Eisenhardt, 1989). Ross (1973) defines this relationship as *“an agency relationship has arisen between two (or more) parties when one, designated as the agent, acts for, on behalf of, or as representative for the other, designated the principal, in a particular domain of decision problems”* P. 134. Jensen & Meckling (1976) defines the same relationship as *“a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent”* P. 5. There are two possible problems with the principal agent relationship as lifted by Eisenhardt (1989). First the conflict that occurs when the principal and the agent have different desires and goals as well as the problem the principal has when assuring that the agent does what he is supposed to do, which is both difficult and expensive. The second problem refers to the risk sharing; in this case the problem occurs when the principal and agent have different approaches toward risk. Eisenhardt (1989) thereto explains that there are two aspects of agency problem, the first one is moral hazard and the second one is adverse selection. According to Holmström (1979) the information asymmetry in the principal-agent relationship opens up for a moral hazard problem. A moral hazard refers to a lack of effort from the agent and occurs when the agent is not executing his assignment properly but the principal cannot detect this due to the complexity of the assignment. The second aspect, adverse selection, refers to when the agent does not have the skills to perform a specific assignment, however, the principal is not able to verify whether or not he does (Eisenhardt 1989).

Jensen & Meckling (1976) also explains that there is a good reason to believe that, if both parties want to maximize utility, the agent is not going to act in the best interest of the principal. The principal can however limit the deviation from its concern through different incentives as well as through monitoring.

As we have previously shown, Swedish institutional investors manage a large sum of all the capital invested in Sweden (Swedish Bankers, 2013). Butler & Wong (2011) shows that from 1995 to 2005 there has been a trend in many countries where institutional investors have increased their financial assets significantly. In the United Kingdom, the collective ownership of institutional investors in 2005 was 70-75 % of the listed equities in that market. This growth comes with great responsibilities according to Butler & Wong (2011). They state that the

institutional investors and owners should have strong incentives to engage in active ownership in different ways. Butler & Wong (2011) furthermore reflect over different sets of international guidelines with the purpose to encourage institutional investors to become active and responsible owners. Before 2006 both the International Corporate Governance Network (ICGN) and Organisation for Economic Co-operation and Development (OECD) established different guidelines which in 2006 were bolstered by UN-PRI, the United Nations Principles for Responsible Investment. These principles present a broad array of matters related to ESG, and they also require its signatories to undertake certain actions. The six principles demand that the institutional investors will:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Be active owners and incorporate ESG issues into our ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Promote acceptance and implementation of the Principles with the investment industry.
- Work together to enhance our effectiveness in implementing the Principles.
- Each report on our activities and progress towards implementing the Principles.(UN-PRI 2014)

Despite that these guidelines now have over 1200 signatories, including all institutional investors in this study (UN-PRI, 2014:2), critique is coming from various sources that institutional investors have not been able to cope with the obligations expected of them (Butler & Wong, 2011). This critique is coming in large part after the 2008-2009 global financial crises. In a report from OECD (2010) they concluded that institutional investors tended to be reactive instead of proactive and that they seldom challenged the boards to make a difference. Following the financial crisis, in the United Kingdom, the Treasury Committee (House of Commons, 2009) accused institutional investors of failing with one of their core tasks. This task was the monitoring of the decisions of boards and executive managers in the banking sector and also to hold them accountable for their performance.

According to Butler & Wong (2011) some countries wanted to toughen the institutional investors' obligations by including demands that the institutional investors serve as "Stewards". In the United Kingdom, a Stewardship Code is now in place with the purpose to increase the engagement between institutional investors and companies to improve long-term returns to shareholders and also to improve the efficient exercise of governance responsibilities. However,

Butler & Wong (2011) state that not all institutional investors should act as stewards and that stewardship can take different forms, e.g. depending on which form of focus different funds have. Depending on the different investment styles, Butler & Wong (2011) believe that it is important for them to declare what stewardship role they have. This alerts companies of what objectives the investment has and what engagement they could expect from their investors.

2.2. Screening

When deciding to make an investment that is classified as SRI, the investors need to take non-financial information into consideration (Löhman & Steinholtz, 2004). When gathering this type of information, investors can use various strategies and according to Viviers & Eccles (2012), there are three strategies that have been used more frequently historically. These strategies are negative screening, positive screening and shareholder activism.

Screening is a frequently implemented tool used when choosing what investments to make. The oldest and most commonly used one is negative screening, often referred to as the first generation of SRI screens (Renneboog et al., 2008). Negative screening means that you avoid investing, or that you reduce the investment, in companies that are associated with e.g. alcohol, tobacco, nuclear weapons, violation of human rights and gambling (Statman & Glushov, 2008). Löhman & Steinholtz (2004) present a problem, for the private investor, with the use of negative screening. A private investor that wishes that his or hers investment should affect how companies behave do not reach this effect if institutional investors only use negative screening. This lack of affecting ability is because of the fact that it is very hard to affect a company that you are not invested in.

The counterpart to negative screening is called positive screening or the second generation of SRI screens. Positive screening refers to the positive effects of a corporation, usually the labor standards, environmental work, corporate governance and sustainability of investments. When implementing positive screening you often use it together with a “best-in-class” approach where the firms are ranked according to their CSR performance with a minimum threshold that needs to be fulfilled (Renneboog et al., 2008). When using positive screening together with a “best-in-class” approach, as an investor, you compare companies within the same sector. This makes the best businesses in “bad” industry sectors available to invest in and not just companies who work in “clean” industry sectors (Michelson et al., 2004). Using positive screening comes with more difficulties than using negative screening, according to Löhman & Steinholtz (2004). It is easier to know what you want to exclude rather than knowing what you want to include and it is also

harder to develop and formulate a positive approach according to Löhman & Steinholtz (2004). They state that it is easier to focus more precisely on negative things rather than positive things. Michelson et al. (2004) further state that working according to “best-in-class” principles signals a more proactive stance working with the overall social performance of firms, not just investing in “ethically acceptable” parts of the economy.

In addition to these two forms of screening it has become more and more common to also use what is often referred to as the third and fourth generation of SRI screens. The third generation of screens is based on economic, environmental and social principles, in both a negative and positive manor, and is more known as a “sustainability” or “triple bottom line” approach. The fourth generation of SRI screens is a combination of the third generation of SRI screens and “shareholder activism” (Renneboog et al., 2008; Statman & Glushkov, 2009; Löhman & Steinholtz, 2004).

Renneboog et al. (2008) refers to shareholder activism as the attempt to influence the companies through dialogue with the management or through voting at the general annual meeting. According to Löhman & Steinholtz (2004) a consequence of this new approach was the need of communicating and educating fund managers and analysts to be able to evaluate the non-financial criteria. As an active owner one need to have the tools and right personnel to e.g. criticizing companies. Further Löhman & Steinholtz (2004) says that Mackenzie at Friends Ivory & Sime (FIS), who was a pioneer on the field of SRI, expressed that being forced to raise a question on the general meeting is a failure. At FIS they do not deselect companies that fail to pass the screening process. Instead they invest in companies with good potential return and thereafter try to affect the company through dialogue.

2.3. SRI and other sustainability related types of funds

According to Benson & Humphrey (2008) the popularity of SRI funds have been skyrocketing the last couple of years. Furthermore, their research on the differences between conventional funds and SRI funds shows that the people investing in the latter are less concerned with the current performance than the people investing in conventional funds. In addition they are also less focused on return than conventional funds. The research also points out that investors investing in SRI funds are less likely to switch funds, this due to the concern that there might be difficult to find a replacement fund that fulfils the non-financial criteria.

Research has shown that investors react to past performance when choosing to invest (Renneboog et al., 2008) and one question is what is taken in to account when investing

responsibly? Usually there are different kinds of screening used to determine whether or not a fund is socially responsible, it can be both positive and negative screening, like not investing in companies that produce alcohol as well as other unethical products and services. However, the screening process can lead to a limited diversification in the portfolio. If e.g. you have four different funds to choose in your portfolio, one with both positive Net Present Value (NPV) and a positive effect on the environment, one that has positive NPV but negative effects on the environment, the third has a negative NPV but positive effect on the environment and the fourth one has a negative NPV as well as a negative impact on the environment. A conventional fund investor would of course invest in the first two funds, but what funds would an SRI investor choose? The question is if he would choose to invest in the one with negative NPV but positive effect on the environment or not (Renneboog et al., 2008). These different investment alternatives are summarized in table 1 below.

Companies	Positive NPV	Negative NPV
Positive CSR	(A) Both SRI and conventional funds invest	(C) Only SRI funds with positive screens invest
Negative CSR	(B) Only conventional funds invest	(D) Neither conventional nor SRI funds invest

Table 1. Model over different investment alternatives depending on companies NPV and CSR. (Renneboog et al., 2008).

According to Alm & Sievänen (2013) institutional investors need to account for climate change issues in practice, not in paper, when making investment decisions. This is because climate change will affect future generations, and it also affects people globally. Investors that are investing in companies with business in emerging markets must account for human and employee rights when making investments. This is because companies investing in emerging markets are not necessarily accounting for human rights. One of the most common definitions for Social Responsible Investment includes integration of ESG factors into the decision-making practices of institutional owners. According to Eurosif (2012), institutional investors account for more than 90% of all the assets that are invested according to responsible investment criteria. Therefore they are an important player in this area and they should address responsible investment practices into their business. Another reason for these institutional investors to work with responsible investments is because they have so much capital invested and therefore they can make a difference for many people as well as for the environment. Alm (2013) found that

large institutional investors tend to have limited control over their global portfolio companies when it comes to their human right compliance.

2.4. Stakeholder activities

Voting at the general meeting is the most visible way for shareholders to take action and influence. To exercise this power institutional investors, just like any other shareholder, need to be present, or have a delegate, on the general meeting. However, the voting behavior and the shares of institutional investors have historically differed a lot between countries, where the US, the UK and Australia traditionally have had a larger proportion of shares owned by institutional investors compared to other countries, e.g. Sweden (Birkmose, 2009; OECD, 1999).

The importance of voting is especially significant due to the separation of ownership and control, which explains the problem with owners not having control over the day-to-day management of their company. However, this problem has historically occurred, partially, because of the small amount of shares held by individual investors (Berle & Means, 1932). To balance the power gap, the most significant role of the shareholders is to select the board of directors, since they in turn appoint the executive directors and the auditors (Birkmose, 2009).

The alternatives for institutional investors when trying to put pressure on companies are, according to Birkmose (2009), voice or exit. If the institutional investor is unsatisfied with the management they can exit, sell their shares, or voice their discontent. The choice between these two options depends on which one is most beneficial for the investor in terms of cost and value. According to Bengtsson (2005) Swedish institutional investors have historically applied a voice strategy in a larger extent and the exit strategy only as a last resort. The reason behind this is the difficulties for larger investors to rapidly sell off a greater amount of shares without a depreciation of the share price.

Birkmose (2009) points out that a problem with institutional investment is that the management of funds often is appointed to one or two fund managers. The problem with this is that the power is transferred to the fund manager, instead of the institutional investor, who then decides how the voting is exercised. Birkmose (2009) further lifts the importance of having instructions and guidelines in these situations so that the decisive power not entirely ends up in the hands of the fund manager.

2.5. NGOs and other stakeholders

The UN's definition of an NGO is: *"Any non-profit, voluntary citizen' group which is organized on a local, national or international level. Task-oriented and driven by people with a common interest, NGOs perform a variety of services and humanitarian functions, bring citizens' concerns to governments, monitor policies and encourage political participation at the community level. They provide analysis and expertise, serve as early warning mechanisms and help monitor and implement international agreements"* (UNIC, 2014).

Non-governmental Organisations, NGOs, started their growth during the anti-apartheid movement in the 1980s and have kept growing in strength and importance ever since, especially during the last 20 years. NGOs are one kind of force that can put pressure on companies to take responsibility for their actions. Their way of influencing companies toward SRI can be as either an advisor e.g. for SRI Funds, or as advocates to Institutional investors or Pension funds. By helping, or putting pressure on different institutions, they can force a change in the corporate conduct, as well as point out where there is room for improvements. The different influencing roles of NGOs are presented in figure 1 below. In later years, the NGOs have also started to launch responsible investment funds themselves to further strengthen the area (Guay et al., 2004).

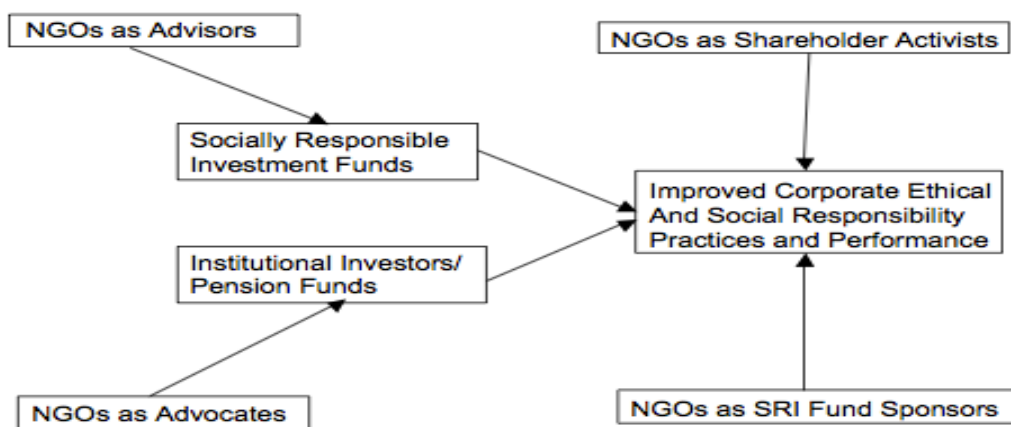


Figure 1. Multiple influencing roles of NGOs in the socially responsible investing system (Guay et al., 2004)

According to Arenas et al. (2009) the perception of NGOs fall into four categories which are: drivers of CSR, legitimacy concerns regarding them, difficulties in mutual understanding between NGOs and other organizations and self-confidence of NGOs as important CSR-players. NGOs have an important role among other stakeholders. A lot of today's NGOs engage with corporations and work together with them in the CSR work. This engagement is shown in various ways e.g. working with CSR standards, technical assistance and participation in the monitoring and auditing of CSR. They show that stakeholders can compete for legitimacy and

that there often are differences between different stakeholders in how they look at each other and at the company. Donaldson & Preston (1995) state that stakeholder theory is now a main pillar in CSR literature and a principal function for managers is to handle all stakeholders' needs, expectations and demands, and also to manage conflicts between them. And according to Waddock & Graves (1997) there has been shown a positive correlation between stakeholder inclusion and business performance. NGOs are considered to be a secondary stakeholder, whilst investors are primarily stakeholders according to Arenas et al. (2009). NGOs lack all contractual bonds with the firm and this make them peculiar hence they do not have any contracts or deals to refer to when trying to have an effect on the company. They can, however, and should establish other types of relationships with the firm. If NGOs present a threat of different confrontational actions such as boycotts, protests and civil suits, they increase their chance of getting the firm to listen to what they have to say. The firm will have a legit reason to change its policies to avoid these types of actions (Eesley & Lennox, 2006).

According to Rowley (1997) it has been shown that social and environmental performance of the firm often depends on the performance of the firm's stakeholders. One lack in nearly all of the literature of stakeholder theory is that they all exclude emotional aspects, perceptions and assumptions. This is strange since every organization, every NGO and every stakeholder group are a bunch of people with feelings and emotions. Also, according to Rowley (1997), what most stakeholder theory literature has not shown so far is the relationship between how different stakeholders perceive each other. NGOs attitude towards the business sector has changed in later years. Now, companies are viewed as necessary partners in improving society and at the same time businesses have gained greater expectations regarding their commitment to social development (Vernis et al., 2006). From this study they showed that in Spain, *“NGOs are considered to be one of the main, if not the main actor, in the introduction and development of CSR in Spain and abroad.”* They also showed that both companies and other stakeholders see NGOs as interesting partners for collaboration and as a way to open new perspectives for business activities.

2.6. Summary of theories

The theories presented in this section handle difficulties that an institutional investor faces and also what responsibilities that an institutional investor have. There are both guidelines, like UN-PRI and previous research that suggest what actions an institutional investor should take, e.g. use of different types of screening and other strategies. These theories are relevant when investigating what the differences are between countries and various types of funds. Furthermore issues about

sustainable investments and ESG are presented and at last theories about other stakeholders and the co-operation with them are presented. Since it is established that different stakeholders play a vital role in how a firm works with CSR, these theories will aid in investigating and explaining how and if institutional investors are acting together with other stakeholders of the company they are invested in.

3. Method

This section describes and motivates how the collection of our data was conducted, how this study analyzed it and in what way the data is presented. Furthermore it presents and motivates what research design we have chosen, what theories that are presented and finally we discuss the trustworthiness of this study's findings.

3.1. Basic scientific assumptions

Ontology and epistemology are two concepts one must be aware of when conducting a scientific research. The concept of ontology is the learning about what the world actually looks like and that there are various apprehensions about what the reality is. One of the most central aspects in the discussions about ontology is if the actions of human beings are linked together or if everything we study is unique. According to these different standpoints we can either explain why a specific event actually happened or we can explain multiple events and their relationship (Jacobsen, 2002). This study will examine how different institutional investors and managers act and think and we will compare them and analyze differences and similarities between them. Our ontological standpoint is that we want to see what effects the event of one respondent or its company has on others.

There are multiple apprehensions about the reality and there are also multiple apprehensions about how and to what extent it is possible to gather knowledge about the reality and that is the concept of epistemology (Jacobsen, 2002). This study uses a hermeneutic approach in which we states that there are no objective reality, and different humans will understand different phenomena differently. We are convinced that there is no "true reality" but rather that there are differences in how humans understand it. To be able to gather this information we used a qualitative approach in which we were able to gather information about our respondents' thoughts and feelings. This study will not present a perfect truth about how the reality is but it will present how different investors view the reality in the best way according to us.

This study will primarily use a qualitative focus with elements of quantitative data collection from the institutional investors' reports. This thesis aims to study how different fund managers and analysts perceive differences between countries and companies. Understanding of these differences is unlikely to be gathered through a questionnaire or by just examining their reports, since the respondents will not be able to describe their reasoning or elaborate their thoughts about perceived differences. A qualitative study is likely to seek answers to these questions and that is why we have chosen a qualitative approach. At the same time the use of certain data from

reports e.g. information about ownership numbers are useful in a quantitative way, and that is why we use some quantitative elements in the study.

According to Blumberg et al. (2008), when writing a study, there are two different study designs that writers can use; a qualitative or a quantitative approach. The distinction between these designs is mainly the difference in what type of information one gathers to study a phenomenon. A quantitative study approach relies on quantitative data or information e.g. figures and numbers where the information can be measured or numerically valued. A qualitative study approach instead relies on qualitative information e.g. sentences, words and narratives usually stemming from interviews with chosen respondents.

One of the advantages of using a qualitative approach is that it does not limit the possible answers a respondent can use (Jacobsen, 2002). This method assures that we can focus on details, nuances and what is unique in every respondent's answers. A qualitative study can be described as an interactive process with high flexibility. We can change the problem formulation or data collection method during the working process, and the research process does not become fixed. Among the disadvantages of a qualitative study is the fact that it requires a lot of resources. To be able to collect information from multiple units it requires lots of resources and with limited resources we have to work with an intense formation that focuses on many variables instead of many units. A qualitative study is said to have a high intern validity because of the deep, nuanced and detailed answers, which presents the "real" understanding about a phenomena. On the contrary, because of the few respondents and the risk of generalization, a qualitative study can have questionable extern validity (Jacobsen, 2002).

3.2. Theory selection

General CSR related information was collected from books, articles and websites. Theories used for the theoretical section of this paper were collected by searching in different databases with certain keywords. The most frequently used databases were selected after a discussion with an educated librarian. Business source premier, ScienceDirect, Taylor & Francis online and to some extent Google Scholar were used frequently. The most frequently used keywords during these searches were institutional investor, sustainability, active ownership, NGO and sustainable and responsible investments.

3.3. Sampling

This thesis will focus on the asset management sections of the largest banks in Sweden. These companies are managing more than half of all the capital that are invested in funds in Sweden and that makes these companies and their actions interesting for many people. The interest for sustainability is frequently discussed in current research, newspapers and other media and the public have a growing interest in sustainability issues. Therefore we thought that a study that investigates how these large corporations work with sustainable and responsible investments could be relevant and that is why we chose to write about that.

We initially contacted all of the four large banks in Sweden and their asset management sections. SEB, Swedbank Robur, Handelsbanken and Nordea were contacted to be included in this study. If all of these asset managers were included, this study would cover 60 % of all capital invested in funds in Sweden. That would mean that the results from this study could be used as a relevant measurement for how the investors of the majority of all capital invested in funds in Sweden thinks and acts. Initial contact where also made with smaller investors which all refused to participate mainly because of lack of time and interest. After the initial contact we got positive responses from all contacted institutional investors and therefore two analysts, one fund manager and one bank director from these four institutions were included as respondents in the study.

3.4. Data collection

The collection of data was made through a combination of primary data and secondary data. The primary data was collected through semi-structured telephone interviews with our respondents. Secondary data were collected through articles, annual year-end reports and sustainability reports. In the chart below (table 2) all respondents and their positions in the company are presented. Although they have different roles and titles they all work with sustainable investments in their respective company.

Company	Respondent	Position
Swedbank Robur	Daniel Paska	SRI Analyst
SEB Asset Management	Anette Andersson	Portfolio Manager, Sustainability funds
Handelsbanken Asset Management	Frank Larsson	Bank Director
Nordea Funds	Katarina Hammar	ESG Analyst

Table 2. Table over the respondents, their employer and their position within the company.

In this study, empiric material in the form of primary data is collected through telephone interviews. Interviews are commonly used when gathering information for a qualitative research and they can be personal or conducted via telephone. A personal interview is described as a two-way communication between the interviewer and a respondent with the purpose from the interviewer to gain information from the respondent. The biggest advantages of personal interviews are the depth and details that the interviewer can obtain. Among the disadvantages is the fact that personal interviews requires that the interviewer and the respondent are at the same physical location at the same time (Blumberg et al., 2008). We have chosen to use telephone interviews to overcome that obstacle since all four respondents are located in Stockholm, and that they could not participate during the same time period. To the advantages of using telephone interviews is the fact that use of telephone interviews leads to a fast completion of the study and it also leads to less risk of interviewer bias (Jacobsen, 2002). The respondent is more flexible and she can answer the questions wherever she is at the moment. Another reason is the economic advantages with no travel expenses or accommodation costs required (Blumberg et al., 2008). One positive aspect with telephone interviews besides the lower costs is that the “interview effect” usually is lower in telephone interviews than in a face-to-face interview. The interviewer can have an effect on the respondent by his or hers body language or facial expressions and this can lead the respondent to act and answer differently. Hence, the telephone interview minimizes the risk of the “interviewer effect” (Jacobsen, 2002).

Among the disadvantages of using telephone interviews, less participant involvement has been showed. According to Blumberg et al. (2008) there has been reported that respondents have experienced telephone interviews to be less rewarding than personal interviews. They perceived that they felt more appreciated if the interview were conducted face to face, e.g. that the interviewees valued their time more. This is something that we have taken in to consideration when choosing how to collect data. Another disadvantage with telephone interviews, according to Jacobsen (2002), is that respondents seem to have easier to speak about more sensitive subjects face to face than in telephone interviews. The reasons behind this are that an interview face to face creates a confidential environment, which is hard to create in a telephone interview. We valued the advantages in telephone interviewing to exceed the advantages in personal interviews based on our limitations and the participating respondents. To be able to collect information, to still have time to conduct a relevant analyze and to be able to make sure every interview were conducted in the same way as another, we chose telephone interviews. The flexibility for the respondents and us were also a key factor when deciding to use telephone

interviews. The majority of the respondents had busy schedules and did not have the flexibility necessary to meet our demands to conduct these interviews face to face before our deadlines.

The questions used during the telephone interviews were in the form of semi-structured questions with the ability to ask follow-up questions depending on the respondents' answers. We used a set of pre-determined questions that were asked to all respondents with various follow-up questions depending on the answer. This way of asking the questions were used because it gives us the ability to get deeper information about the respondents' knowledge, actions and thoughts. It also gives us an insight about what the respondent think is relevant (Blumberg et al., 2008). All interviews were held in Swedish and citations were then translated to English when written down in our thesis. A translated copy of our questionnaire used in all interviews is found in appendix 1 in the end of our thesis.

Secondary data in this study derives from articles, written literature, annual year end reports and various reports regarding sustainability from respective responding company's website. The use of secondary data in qualitative research is often used for descriptive purposes (Blumberg et al., 2008). That is the main reason for why we have used secondary data since that is what the institutional investors are presenting on their websites. It is the easiest and fastest way to get basic information about their investments and their sustainability work. Secondary data is also used when constructing the theoretical framework. One disadvantage with using secondary data from respective bank is that the information presented is what the banks strategically want to present. They can choose to exclude parts that would be relevant for readers if that information would harm the bank in any way (Blumberg et al., 2008).

During every interview, all questions were asked by one of us with the other author present in the room. The same author led every interview and this was done to make sure that one author did not affect the respondents differently than the other. At the same time the other author followed the interview guide and made sure every question was answered and he also made notes simultaneously. Every interview was recorded and thereafter one of us was responsible for transcribing the interview. After this transcription the other author listened trough the interview and controlled that everything that the respondent had said was written down. Every interview lasted between 30 and 55 minutes and the time difference was mainly because some respondents talked more thoroughly about some questions than others. If we had any questions or ambiguity after the interviews we contacted the respondents to get clarification.

3.5. Analyzing the data

There are three steps when analyzing qualitative data; description, systemization & categorizing and combination (Jacobsen, 2002). At first we registered all information from our interviews as detailed as possible. After the transcript was done, we started to comment what was most interesting and relevant in all interviews. This was done in order for us to be able to return back to the document and select the most relevant parts effectively. We then started to analyze each interview separately to get deeper knowledge about each one. We started to divide our most important findings into categories as a preparation for the next step in the analysis.

The next step is to systemize, categorize, and to some extent reduce, all gathered information for us to get an overview over all information we had gathered. We then switched focus from each interview to focus on the subjects and phenomena in all interviews. We collected data from all interviews under different categories and started to compare the data, finding similarities and differences. Categorization is the tool we need to use to be able to declare if data are similar or different (Jacobsen, 2002). The categorization also means that we do not have to handle the total amount of data; we can instead focus on the parts that are most relevant to the study. Categorization is a necessity to be able to compare and analyze data from different interviews. Categorization was done through a discussion between us, to select and categorize our most important findings into different categories. Then through further discussion we highlighted the most important similarities and differences between the respondents data. We started with approximately 15 categories or keywords and finally narrowed it down to two themes which are presented in the analyze section. “The investment process; strategies & execution” and “stakeholder engagement” are the two themes.

The third step in the analyze process according to Jacobsen (2002) is to search for meanings, things and objects that can aid in the generalization and structuring of the data. During the analyze process we reduced the diversity in the information to be able to make relevant comparisons between what the respondents said and previous research. These three steps are not conducted in a specific order and we often returned back to our transcriptions after discussions that led to new interesting thoughts and ideas.

After these three steps were conducted, and all material was looked into multiple times, we ended up with what we found was the most relevant information related to previous research, collected data and the purpose of this study. Our data is presented as citations from one respondent with summaries of the other respondents thoughts connected to them. We have presented citations

with information that are exclusive for just that respondent as well as citation that is said by just one respondent but at the same time is thoughts close related to other respondents.

3.6. Validity and reliability

Three different measures for a study's credibility are validity, reliability and objectivity and all of these three measures must be taken into account in scientific context. A high validity means that a study truly measures what it is intended to measure with an absence of both methodological and systematic errors. A high reliability assures that if you or someone else repeats the same investigation you would get the same values. Finally, if a study has high objectivity it means that personal values, bias and prejudice have not affected the study (Björklund et al., 2014).

A validity issue for this study could be if the respondents did not have the knowledge about sustainable investments and the difference between countries that this study aims to investigate. It is important that the respondents actually have information about the questions we ask them so that the information provided by the respondents is based on facts. Among the investors and analysts who were asked to participate and also included, we got a positive response from an investment manager who managed two Swedish ethical mutual funds and did not work with ESG analyses globally. This investment manager was included in this study despite the fact that she did not manage any foreign company stocks. She has direct knowledge about investments in Sweden and at the same time indirect knowledge about how this work is conducted in other countries by working in a team with ESG-analysts. All respondents are active in working with sustainability related investments in and therefore we do not see any risk for low validity based on our respondents.

The subject of sustainability carries with it a number of abbreviations with different meanings and values. This presents a number of validity issues since the respondents can value the meaning of these words differently. To assure this study maintains a high validity we started each interview with a number of control questions, and we asked every respondent to describe how they value SRI and what it means for them. This was done to make sure that we measure what the respondents really mean when they are talking about sustainability and sustainable and responsible investments, and to maintain a high validity. The use of semi-structured questions also increases the validity since the different follow-up questions, if relevantly asked, gives the respondent time and ability to speak deeply about the subject.

To assure a high reliability for this study we used semi-structured interview questions that gave the respondents the possibility to speak deeply about their thoughts. During discussions between

us, the use of semi-structured questions was decided to be the best way to increase the reliability. There are no guaranties that the use of the very same questions would lead to the same responses and that is an issue for this study. But through discussions we decided that the use of semi-structured questions would give better, and most of all deeper, answers than a questionnaire or structured questions without the possibilities to ask follow-up questions. There is nevertheless a possibility that our follow-up questions can lead the respondent to other answers than another study would get. There is also a possibility that these questions can guide the respondent in ways other than what was intended by the study but overall we are certain that the chosen method is the one method that gives this study the highest reliability.

The respondents that are included in this study are all working with sustainable investments in different ways. According to Jacobsen (2002) there are three aspects to look at when investigating the relevance of our sources. One should look at how close the source is to the phenomena, and what knowledge the source has about the phenomena we wishes to investigate. One should further look at the context that the respondent is in and if it can affect the answers. All our sources have worked within the area of sustainability for many years and we are sure that they have the knowledge necessary to answer our questions. We are also sure that the context did not affect the respondents since we held the interviews with them, without any other person present. One issue for this study might be that one respondent are only managing Swedish funds and therefore she is not as close to the foreign companies as the other respondents. She is however working close to managers and analysts working with foreign companies and therefore we see only a minimal risk that this information was twisted or altered before reaching us.

During all interviews the follow-up questions were asked without the intention to add any personal values or critique to it. This was done to maintain as high objectivity as possible throughout the whole interview and not to influence the respondent to confirm or discard any of our points of view. If we would ask questions with personal value added to it this could lead to an interpretation of the respondents answer according to our prejudice. We were neutral to all possible answers we could get and we had nothing to gain or lose by distorting any information from the respondents and that decrease the risk of subjectivity. The respondent could also answer in ways different than what was intended if the questions are asked with values added to it or if we try to guide the respondent into the answers we wish to get.

Although we acted in a way that would minimize the risk of subjectivity, this is still a qualitative study and data from our respondents might be subjective. Investigating all written reports from every institutional investor and comparing them with what the respondents talked about was on

action we took to handle the risk of subjectivity from the respondents. At the same time being aware of the risk for subjectivity and being critical to what the respondents were saying were another way for us to minimize the subjectivity risk. We controlled all possible collected information and we are also clear with stating that a qualitative study has its objectivity issues.

During some interviews the respondents spoke about sensitive information regarding companies they were or had been invested in. Upon the respondents request we have made these companies anonymous. Therefore the company name [X] is found under the last question in the empirical data chapter; how are Swedish institutional investors working together with other stakeholders?

4. Empirical data

In this section we will present the empirical data that we have gathered through our interviews with the respondents. The empirical data is presented in the form of summaries from all respondents and their respective company's website and also with citations from the respondents.

As previously mentioned we started each interview by asking the respondent what values he or she puts into sustainability, sustainable investments and SRI. Three of the respondents used the term ESG when describing sustainability and then further explained what values it stands for. The fourth respondent however says that ethical and sustainable investments are two different things. Ethical investments are investments where you deselect to invest due to certain criteria whilst sustainability covers how the business is run.

To deepen the understanding further we also looked at the CSR-reports and policies available at each institutes web page. To begin with the institutional investors have all signed UN PRI, UN Global Compact as well as the United Nations Environmental Programme Finance Initiative, UNEP FI. Furthermore, some of the investors use the terminology ESG whilst others describe more thoroughly what they put in to the concept responsible investment, e.g. international conventions, human rights, corruption, labor rights and standards, environmental responsibility and controversial weapons. The essence in the meaning of sustainability is however roughly the same (Nordea Asset Management, 2013; Swedbank Robur, 2013; Handelsbanken, 2013;2; SEB, 2014).

4.1. The investment process; strategies and execution

The investment process might be individual and differ from investor to investor. Having said that, we define the investment process as; the steps and tools investors use and follow to find,

analyze and select companies to invest in. The investment process, according to us, starts with the first contact or information search about a company and ends when an investor decides to eventually sell the stocks.

Does everybody in the organization know the investment strategy; can a single portfolio manager make the right decisions?

“Since 2013, every [fund/portfolio] manager has access to an ESG rating from an external supplier. We are working to integrate these questions into our investment decisions [...] Every manager have access to this [...] Then it is of course up to every manager to decide how he or she wishes to use the information” - Nordea

None of the four institutional investors allow any manager to invest in companies that are forbidden. Otherwise three respondents stated that it is the manager who decides what companies he or she wishes to invest in. One respondent expressed that in the normal funds, it is up to the manager to make investment decisions but in their sustainability funds they have a promise to the customers to only invest in the best companies in respective industry. Because of this, some companies are excluded.

In their CSR-reports the banks further explains in what way they make sure that the fund managers follow the guidelines set up. For instance, Swedbank Robur have implemented a sustainability policy that describes how they should work with sustainability, this policy is then integrated in the whole organization. At the start of 2014, Swedbank also promoted a new web based education that is obligatory for all employees. This education regards how aspects such as human rights, environmental issues and anti-corruption are integrated in the organization (Swedbank, 2013). Handelsbanken have a code of conduct with seven topics on how the employees ought to behave. To that they have ethical guidelines adopted by the board in which the fundamental acting of each employee is put together. The employees are also set to follow the laws that regulate the banking sector (Handelsbanken, 2013). Just like the former, Nordea have a Code of Conduct as well as a Sustainability policy that all employees must comply with. The basis of Nordea’s values is their “people strategy”, which is incorporated in all their people processes, training and leadership (Nordea, 2013). In their Corporate Sustainability Report, SEB (2013) express the importance of integrating sustainability in their business, which is done through dialogue. Thereto they points out the importance of increasing awareness and knowledge of sustainability among employees. The latter two are also communicated as the key factors for success.

How do Swedish institutional investors execute the selection of companies to invest in?

“An important part in our analysis process is to meet the companies, step one is to gather all available information from sustainability reports and different suppliers” - Nordea

According to our respondents the first step in selecting companies to invest in is to gather all the information available in terms of annual reports, sustainability reports as well as making analysis, both in-house and analysis bought from external companies. However, one of the most important parts in the selection process, that they all agree on, is to meet the companies to get a wider perspective and make a better analysis. An area of concern is the closeness and accessibility of the companies, as well as the size of the investors. In Sweden the investors are all well-known, big players, which make the companies more interested in meeting them, but when it comes to the global market the investors are smaller and less known. This, together with the physical distance, result in giving the investors a hard time setting up face-to-face meetings especially with higher executives.

“We don’t discriminate between sectors, we don’t deselect to invest in oil companies in our sustainability funds but if we want oil companies we want the best” - Swedbank Robur

In terms of discrimination the respondents are all on the same page, discrimination is not encouraged. The investors will, on the other hand, exclude companies that do not fulfill the requirements set up. One respondent however says that one branch, fossil fuels, is discriminated in their sustainability funds.

“Negative Screening is when you remove the worst, [companies] or the ones connected to certain products, weapons, tobacco, porn, gambling etc. and positive is when you chose the ones that are best, we use both” - Swedbank Robur

Screening is a common tool used by the institutional investors when choosing what companies to invest, or not to invest, in. The investors are making their own screening analyses on their home market. On the global market on the other hand the investors are buying the screening from external screening companies such as Ethix. The reason to this the respondents says is that it is impossible to know everything about the around 3000 global companies they can invest in. All four respondents are working with both positive and negative screening to some extent. All of the respondents also refer to a list of companies that are excluded or forbidden. These companies are all related to unethical products, however, no Swedish companies are found on these lists.

The products excluded are chemical weapons, cluster weapons and personal mines, weapons per se are however not excluded. The negative screening is commonly used in an early phase of the investment process to remove companies in the lower segment of sustainability or companies with a lack of it. The positive screening, on the other hand, is used to spot the companies in the top segment and is often combined with a best-in-class approach. The positive screening is according to the respondents also used in a higher degree than negative; this is since negative screening is seen as the old and somewhat boring way of screening. Apart from screening, Handelsbanken are basing their responsible investment process on different themes when looking for investments. An example of such theme is water supply, where the fund managers try to find investments related to companies capitalizing on purifying water.

“You are not allowed to break any conventions, EU and FN. [...] I have higher pressure than my colleges who invest more traditional. I want to see that they [the companies] have signed for example UN Global Compact, that they report according to GRI [...] and that they report their pollution to CDP and such things.” - SEB

A main pillar when choosing companies to invest in is to look on different norms, standards and regulations such as: UN Global Compact, GRI, EU and UN conventions and CDP to see if the companies are violating or using them. The different types of norms and standards are nevertheless not a necessity, for all investors, but depend on the size, age and financial strength of the company in question, as well as the company's vision and attitude toward the same. If a company's objective is to implement sustainability in the organization an exception can be made in the early stages. There is also room for exception if the benefit from a product is higher than the cost, in terms of sustainability. If, for example, a company comes up with the cure to cancer but is not working in a responsible way, such exception can be made.

4.2. Stakeholder engagement

In what ways are Swedish institutional investors engaging in active ownership?

“The cultural distance and the distance in kilometers, makes it harder and harder the further from Sweden we come [...] in the Nordic countries, England and Germany we can affect to some extent [...] short distances can still mean quite large cultural differences [...] the approach to how to run a business is a big difference and our ability to affect increases with distance, geography and culture” - Handelsbanken

All four institutional investors meet with companies as one part of their active ownership strategy. They also express that they are meeting with Swedish companies far more frequently than with foreign companies. The reasons to this are that it is longer geographical distances but it

can also be lingual issues. Furthermore one respondent expressed that it can be hard to get the exact information they want from foreign companies; that some foreign companies do not know what they want with their visits.

“I am located in Sweden and I have short distance to companies, we are one of the biggest actors on Stockholmsbörsen. It is easy for me to meet companies by default since we are a large owner in almost every company” - SEB

Three out of four respondents expressed that they are a relative small investor internationally and that it makes it harder to affect companies in the same way as they do in Sweden. In Sweden they are often one of the largest owners and are well known by the companies. These three respondents expressed that they would be surprised if many of the foreign companies they are invested in knows who they are. One respondent stated that just by doing a sustainability analysis, they affect the company.

“One important step in our analyzing process is to meet with the companies, and one step is to gather all available information from sustainability reports and different suppliers we use but one important component is to conduct a good rating and a good own analyze is to meet the companies” - Nordea

How are Swedish institutional investors choosing between a voice or exit strategy?

“In normal funds, we can keep companies for a very long time because we think that it is always better to be an owner and be able to affect rather than to stand outside and not be able to have an effect” - Swedbank Robur

All respondents are very clear with the fact that they think that it is better for them to be a shareholder than to stand outside of the market. If they are invested in a company they can be able to affect said company with its sustainability work and its risk issues. None of the respondents wishes to exclude any company; they all prefer to be able to invest unless the companies are violating international regulations or the policies of the institutional investor. They will address companies when they e.g. are violating norms or conventions.

“It is a quite large distinction in what we can own in the normal funds compared to sustainable funds where we can only invest in the best business in respective industry [...] it is a foundation for our sustainability funds” - Swedbank Robur

“If we identify a company that violates international norms [...] in the second level of our funds we exclude them immediately” - Nordea

Although all respondents express a will to always invest rather than to stand outside of the market there are some differences comparing normal funds to the sustainable funds. All respondents state that they address companies that are violating, or close to violating, international norms. There are variances between the respondents when speaking about what actions they make and only one respondent clearly states that they exclude these companies immediately, they all however are very clear with expressing that they are taking some action immediately with these companies.

“We don’t want to sell, then we have failed with our dialogue, we rather want to work with the company to improve [...]” - SEB

To have a dialogue with companies that have high risk or sustainability issues is important to all respondents. They wish to speak with the companies and get them to present a time frame for how they are going to improve and how the improvement is going to be conducted. One respondent expressed that they wished to have a dialogue with financially interesting companies that did not meet their sustainability demands to work together with them towards possible improvements.

How are Swedish institutional investors working together with other stakeholders?

“For us it is most natural to work with other owners. It is with them that we can co-operate and decisions are made by the board of directors, who we as owners chose, and that is where the power is located” - Handelsbanken

Working together with other owners is the most natural way of co-operating according to three respondents. The respondents found co-operation with other owners most natural because they are the ones with the power to affect by e.g. voting at general meetings. There is one example where all large Swedish institutional investors engaged together in addressing a large Swedish company who had experienced heavy critique based on working conditions in foreign countries they had business in.

“I know many examples of companies that have used NGOs, e.g. Transparency International who are really good at corruption, there are many companies that have used them in how to handle, how to relate to, and how to act to avoid corruption in their business” - Nordea

“When working with [X], we together with all the other large fund investors in Sweden, Swedish church, Ethix sat together with [X]. They got the chance to explain how they are working in China, where they have had

problems and also in India and Pakistan. We want to know how they are going to change and when, how their time frame looks like” - SEB

One respondent expressed that they had deeper co-operation with NGOs. This was only Swedish organizations and they had not much co-operation with foreign organizations in any larger extent. All other respondents did not have much co-operation with NGOs, although they find them useful for gathering information. Information provided by NGOs were appreciated, but one problem when co-operating with them is the fact that they cannot affect companies in the same way owners can since they do not own any stocks in the companies. The respondents stated that NGOs have a different agenda and that they often have a different view on the benefit of companies.

4.3. Summary of empirical findings

The investment process of the investors is more or less the same starting with information gathering through reports, analysis and dialogue. All institutional investors work with screening to some extent and a best-in-class approach is not rare. The investors have signed and follow different international initiatives, UN Global Compact and UN-PRI for instance. As part of the active ownership strategy the institutional investors meet companies. This is however more common on the Swedish market than the global market for reasons such as accessibility and the fact that they are smaller actors in the global context. Further they want to affect companies through a voice strategy and the exit strategy is often used only as a last resort, even if companies have violated international norms or been part of greater scandals, with some exceptions in the sustainable funds. The work with other stakeholders plays out in the form of co-operation with other shareholders especially to better address larger companies. In the case of NGOs the collaboration plays out rather as an exchange of information than as co-operation, mostly due to different agendas. All institutional investors have companies that are forbidden to invest in; nevertheless, the fund managers have the decisive power when it comes to what investments to make.

5. Analysis

5.1. The investment process; strategies and execution

Does everybody in the organization know the investment strategy; can a single portfolio manager make the right decisions?

A problem with institutional investors, as pointed out by Birkmose (2009), is that the power is transferred from the institutional investors to the individual fund managers. Further, Birkmose (2009) stresses the importance of having clear instructions and guidelines to balance the power gap in some degree. According to our respondents the power lies in the hands of the fund manager and apart from the excluded companies, the fund manager has the freedom to choose to invest how he or she sees fit. Further the respondents emphasize the difference between sustainable investments and conventional investments, where the former has higher demand and responsibility toward their customers that extends beyond the return of the investment. In their respective CSR report the institutional investors express what is expected from the employees as well as how it is ensured that, what is expected is followed. Additionally, this could be related to the principal-agent theory and the problems linked to it. Eisenhardt (1989) points out that one problem with this relationship is the different attitudes toward risk and that this in turn could result in a conflict of interest.

The second problem is related to the monitoring of the agent and the expenses connected to it (Eisenhardt, 1989). In this sense the institutional investors have, as earlier mentioned, guidelines that should be followed by the fund managers but also recurrent dialogues, which should work as observer. Nevertheless, in this case the fund managers are hired by the institutional investors to invest on behalf of their customers that in turn hold the risk.

Screening

How do Swedish institutional investors execute the selection of companies to invest in?

All of our four respondents are using negative screening. As described by Statman & Glushkov (2008), the investors avoid or reduce their investments in companies related to certain unethical products, like pornography and cluster weapons, or companies that violate human rights as well as other sorts of regulations e.g. UN and EU conventions. The negative screening is however less popular than its sibling positive screening. As pointed out by Löhman & Steinholtz (2004) the problem with negative screening is that if you are not invested in a company you are neither able to affect and push it in the right direction. This could be one of the reasons behind why the

negative screening is mostly used in the lower segment of the sustainability funds. Löhman & Steinholtz (2004) further explains that the negative screening is easier to use than positive screening since you often know what you do not want in a company rather than knowing exactly what you want. This could also be a motive to why the negative screening still is a common tool even though some of the respondents refer to it as old and boring to work with. The positive screening that is more frequently applied is often used in a combination with a “best-in-class” approach. According to Michelson et al. (2004) this approach gives the investors the opportunity to invest in the best business in a “bad” industry. One respondent used this approach and could therefore invest in an oil company in a sustainability fund. We think that it is somewhat contradictive that a company working in a non-sustainable industry still can be included in a sustainability fund and this is one of the negative aspects with using positive screening together with the “best-in-class” approach. Michelson et al. (2004) further expresses that working after the best-in-class principles states a more proactive stance since you approach the overall social performance and not just investing in “ethically acceptable” parts of the economy. The theory of Michelson et al. (2004) could be supported by Löhman & Steinholtz (2004) who illustrate the example of FIS where they invest in companies, even though they do not pass their screening process, this in order to affect them through dialogue. This way of investing gives the institutional investors a greater freedom of choice, however a complication could be the possibility to use this approach on companies not originated from Sweden, due to the lack of dialogue with the same. But as Löhman & Steinholtz (2004) puts it, the companies you are not invested in you cannot affect.

In Sweden the investors have a better connection to, and are closer to, the companies in which they want to invest. Investments in companies outside of Sweden do not give this opportunity in the same way since, according to our respondents; they are less known and a smaller player on the global playground. Renneboog et al. (2008) refers to this approach as the fourth generation of SRI screens where you combine the third generation of SRI screens with shareholder activism. Furthermore, when it comes to the screening process there are differences between the investors’ home market and the global market. On their home market all screening analyses are made in-house while on the global market they are bought in from external screening companies.

5.2. Stakeholder engagement

In what ways are Swedish institutional investors engaging in active ownership?

When invested in a company, all four institutional investors as a stakeholder are engaged with said company. This engagement is much in line with what Epstein (2004) states, that there are differences between how the stakeholder engagement looks like. According to our respondents they engage regularly to ensure that companies are not violating any conventions and they are also engaging more frequently when e.g. the company makes a new acquisition that increases their risk. There are no differences with the engagement in different countries apart from the fact that they can set up meetings with Swedish companies more easily, and that most Swedish companies they invest in have a lower risk than foreign companies. The stakeholder engagement is various and flexible, just in line with what Epstein (2004) writes.

Rowley (1997) states that little research have been done about the relationship between a firms different stakeholders and how they perceive each other. Arenas et al. (2009) however found that there are differences between different stakeholders in how they perceive each other. Looking at how the institutional investors view other stakeholders, we asked which stakeholders they co-operate with, why and how this co-operation looks like. Working together with other stakeholders is mostly conducted in the form of working together with other large capital owners. They express that they can work together with them because it is them who have the power to affect how the company is controlled and who should make the decisions. They expressed no difficulties in co-operating with other owners to Swedish companies and there where examples of when all institutional investors worked together to affect one single company. When looking at investments in foreign companies they expressed that it was harder and done less frequently because they are a smaller owner in foreign companies. All institutional investors had the same view on this. The differences between investment in Swedish and foreign companies were mostly because they did not have enough capital invested to get the power to affect foreign companies, although they did express a wish to be able to do that. Power to affect clearly comes with capital invested and votes at the general meeting, and therefore it is hard to criticize the institutional investors for not acting in the same way in various countries.

How are Swedish institutional investors working together with other stakeholders?

One thing that differed in some ways between the institutional investors, and what also differed from the perception of other owners, was how they perceived NGOs. One institutional investor had minimal co-operation with NGOs and all institutional investors expressed that it was hard to

work with NGOs because of the different agendas. This differ in some ways from previous research (Vernis et al., 2006) that states that NGOs are an interesting partner for collaboration and that they can play a vital role in companies CSR work. This is not the perception the institutional investors have; they seem to want to be the ones that co-operate with the companies in their CSR work. At least the institutional investors did not co-operate with NGOs when it comes to the CSR work. They do however use NGOs for gathering information about companies and they expressed that NGOs are useful for this work. One fact all institutional investors established is that NGOs have no real power in affecting the companies. This is in line with what Eesley & Lennox (2006) found that the lack of contractual bonds between NGOs and firms makes the alternatives for NGOs to get heard fewer. They have to confront or present a threat to companies to be able to affect them. This information might be used to minimize the risk that Alm (2013) found that the institutional owners can have limited control over their global portfolios. The institutional investors did appreciate the information NGOs provided and the fact that NGOs lack contractual bonds, and therefore can criticize companies without the risk of ruining any relationship, might well serve as a way of getting information about foreign portfolio companies. In Sweden the institutional investors expressed that they could meet companies more frequently and also get access to information more easily and there is probably less risk in Sweden regarding information control.

Only one institution talked about an NGO that was used frequently by companies as a partner and that was when companies needed help with corruption related issues, only one part in the wide ESG spectra. We also found differences between how the institutional investors perceived Swedish NGOs compared to others. One institution worked with NGOs that where located near their office because the short distance, but no one worked with foreign NGOs regularly. During the interviews we often heard that the respondents expressed that some NGOs did not always have the most rational behavior and that they could be to narrow minded. This falls within the research by Arenas et al. (2009) about the perception of NGOs, that they can be perceived in four different ways. We found that there are some legitimacy concerns about them and that there are difficulties in the mutual understanding between NGOs and other stakeholders. This study did not show that NGOs where classified as important CSR players or drivers of CSR and that is probably because the institutional investors themselves think that they are the best one in co-operating with companies and together with them elaborate their CSR work. NGOs do have a vital role to play but maybe not in the co-operation with other stakeholders but as an information provider and as a stakeholder that have the ability to criticize freely.

Voice or exit

How are Swedish institutional investors choosing between a voice or exit strategy?

All respondents clearly states that they would much rather own shares in a company than to stand outside the market and not be an owner. The primarily reason for this is that they want to be able to affect the company and the only way to do that is to own shares in said company. Birkmose (2009) have found that there are two strategies for an institutional investor if unsatisfied with the current management; voice your discontent or exit and sell your shares. The institutional investors want to use a voice strategy and according to Bengtsson (2005), Swedish institutional investors have a history of using a voice strategy rather than an exit strategy. Bengtsson further states multiple reasons for this e.g. regulations, the effect on the market share price and insider situations. As previously mentioned, all investors prefer a voice strategy but their reason for this strategy is somewhat different from the reasons Bengtsson (2005) found.

The respondents speak about the use of an exit strategy as a failure with their dialogue or investment process and that the use of a voice strategy comes with the great advantage of being able to affect companies. They speak very little about the reasons that Bengtsson (2005) presents, where it is another focus on the reasons behind choosing the right strategy. The focus in his research is mainly on the reasons for why institutional investors cannot chose to exit, rather than the possible positive effects of choosing to voice. The respondents in this study did mention the fact that if they decide to sell, it would have a large effect on the market share price and that it is a reason for them not to sell. The main focus is nevertheless still on the abilities that comes with using a voice strategy. Other possible reasons for why they did not mention regulations etcetera is that no direct question was asked about regulations. They all expressed the positive facts about choosing to voice and that an exit is a failure for them, rather than speaking about why they cannot exit. Therefore it is relevant to assume that the positive effects dominate the regulations.

The institutional investors have a greater ability to affect Swedish companies in most ways compared to foreign companies. Choosing between voice and exit is also different between Swedish and foreign companies and the reasons for this, as expressed by the respondents, is that they in most cases are large owners in Swedish companies and small and relatively unknown owners in the foreign companies they are invested in. This is very much in line with previous research by Bengtsson (2005), who states that the number of stocks and capital invested is one major difference maker when choosing between the different alternatives. The respondents do express a desire to be able to affect foreign companies but they do not have the ability to do so.

To be able to affect foreign companies they would most likely have to invest a larger amount of capital in these companies. We cannot see any reasons for the institutional investors to re-allocate their capital from Swedish stocks to foreign just to be able to affect these companies more, with the risk of not being able to affect Swedish companies anymore.

We have found differences when choosing between the two alternatives in normal funds compared to the “ethical” or “sustainable” funds. In these funds, they have different regulations compared to the normal funds which make it impossible for them to maintain ownership in companies who are acting against norms or violating conventions. In these funds the exit alternative is the only alternative, because of their demands on these companies, if the violations are too severe. They can voice and have a dialogue with those companies to some extent, but not nearly as long as they can with companies in their normal funds where they can keep companies for a longer period of time.

Butler & Wong (2011) have criticized institutional investors for not being able to cope with the responsibilities that are expected of them, regarding e.g. active ownership. OECD (2010) furthermore criticized institutional investors for being reactive instead of proactive and that they seldom challenge the board of the companies they are invested in to make a difference. This study have found that the institutional investors are acting proactive when it comes to Swedish companies but that they cannot act in the same way in foreign companies. This is mainly because of the fact that they have less capital invested and that they are a smaller owner in these companies. We cannot state that the institutional investors in this study are unable to cope with their responsibilities and we do think that they are acting as active owners as far as possible.

6. Conclusions

The purpose of this thesis was to investigate if there were any differences in the investors' investment process between countries, how different Swedish institutional investors engage in active ownership in different countries and if there are any differences in and how this work is done practically.

- Are there any differences in how Swedish institutional investors evaluates companies to invest in throughout the investment process and following ownership?

This study has found no major differences between how the different institutional investors are executing their investment process. However, we have found that the investment process differs between investing in Swedish and foreign companies. When it comes to the ownership, all investors prefer a voice strategy to an exit strategy. Nevertheless, their ability to affect companies differs between the home market and global market due to the geographical distances and the fact that they are smaller investors on the global market.

The initial steps in the investment process are similar in most cases with the only main difference that external suppliers are used for information and analysis gathering abroad. What this study has found is differences between the abilities Swedish institutional investors have in affecting companies on the Swedish stock market compared to foreign companies. They have easier access to managers in Swedish companies both due to the fact that they are geographically closer and also more willing to meet with the institutional investors. One major reason for this seems to be that the institutional investors generally are larger owners in the Swedish companies and therefore they have a greater ability to change and affect those companies. These findings are well related to previous research and this study can therefore establish previous research in this field. The institutional investors are using all different screening methods described in previous research and they express that the use of negative screening is regarded as being old and boring to work with, in line with what previous research have found. This was also expected since there is much previous research done in this field and the reasons behind the differences are well established.

This study did get some results that differ from previous research, regarding the use of a voice or exit strategy. In this study, the respondents emphasized the positive aspects of the use of a voice strategy rather than talking about the regulations that would lead up to an inevitable use of an exit strategy. We also found differences in how the institutional investors perceived NGOs and their affect on companies. The overall view on NGOs is that they are useful as information providers but that they are not a stakeholder to co-operate with. This also differs in some ways from

previous research that found that NGOs can be seen as a partner in companies CSR work. Reasons for this might be that NGOs did affect more in previous years, when that research was conducted, when CSR was not as well established as it is now. Now, the institutional owners want to act in co-operation together with companies with their CSR work and they do not think that NGOs are necessary in this work.

The acceptance of the UN-PRI principles that all the institutional investors in this study have agreed upon demands that they should implement ESG issues into their investment analysis among other things. All institutional investors in this study have investment strategies that include meeting with companies, and thorough analyzes to make sure that the companies they invest in are acting in a way that enables the institutional investor to make an investment. There are differences between countries and those differences are that they cannot meet foreign companies as frequently as they meet Swedish.

6.1. Suggestions for further research

This study found that individual managers have the power to invest in companies of their choice as long as those companies are not forbidden to invest in. All institutional investors have different policies and communication channels to spread their sustainability strategies to all employees, including fund managers. It would be interesting to further examine how this strategy is communicated and if every fund managers knows the strategies and if they are working according to them. It would also be interesting to investigate if there are any differences in portfolio return between the portfolios of the managers that knows and follows the strategies and managers that might not have this knowledge.

It would further be interesting to investigate more thoroughly about if it is possible for Swedish institutional investors to act in other ways than how they are acting now, as active owners in foreign companies. The problem seems to be that they do not have enough capital invested in foreign companies, but if they would invest capital to become one of the biggest owners, would they be able to affect the companies then?

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Swedbank Robur

Daniel Paska, SRI Analyst, Telephone interview 2014-04-16

Handelsbanken

Frank Larsson, Bank Director, Telephone interview 2014-04-28

SEB

Anette Andersson, Portfolio Manager Sustainability Funds, Telephone interview 2014-04-28

Nordea

Katarina Hammar, ESG Analyst, Telephone interview 2014-05-02

Appendix 1

- What values do you connect with the term sustainability and SRI?
- Are you working with sustainability in all your funds?
- What are your fundamental demands on companies you are interested in investing in?
- Are you excluding any companies, industries or countries as potential investment objects before evaluating the investment potential in them?
- Have you experienced any differences in how companies' sustainability work and their sustainability reporting have changed in Sweden and abroad during the last years?
- Describe your selection process, how are you searching for interesting companies to invest in, are there any differences between the process in foreign and domestic investments?
- How and when are you deciding to work with active ownership in the companies you invest in?
- How are you engaging in active ownership in foreign and domestic companies? Are there any differences and what are these differences?
- Are you experiencing differences in how you can affect Swedish companies and international companies?
- Are you working together with other stakeholders when trying to affect companies?
- Are you experiencing differences in how NGOs are affecting companies in Sweden and abroad? Do you co-operate with them in any ways?
- How are you working with collecting information to make sure a company is not violating your demands when invested in said company?
- For how long time are you trying to affect companies before deciding to exit said company?
- Are you experiencing big differences in how you can control Swedish and foreign companies regarding their sustainability work?