Big money, Big responsibility?

A study of responsible and active ownership

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ABSTRACT

Social Responsible Investments and Corporate Social Responsibility are terms that have become increasingly important in the business world of today. Fund companies have during the last years increased their work with issues such as human rights, environmental impact and business ethics before making an investment. The trend of today is rather to work as active owners and influence companies to change rather than passively excluding certain industries. Other investors whose business idea is to buy, create value and sell companies also use a very active owner strategy but historically focus has been on issues such as industrial development and financial performance and CSR issues have been left out. With this background I came up with the purpose of this study.

The purpose of this study is to create an understanding of if/how investors work with social responsible investments by engaging in corporate social responsibility issues, mainly during the ownership of a company. Further on the study aims to identify the differences between investment companies compared to fund companies when it comes to interest in and promotion of CSR issues as owners. Finally the study intends to create an understanding for the attitudes towards corporate social responsibility and social responsible investments from the investors’ point of view.

I have chosen to study five investors, two fund companies known for their work as active owners by engaging in CSR issues, and three investment companies who all work with engaging in CSR issues to different degrees. To be able to fulfill the purpose I needed deep information about the subject of study and I therefore chose a qualitative method and collected data from semi structured interviews at the investors’ offices in Stockholm. The empirical data was analyzed and interpreted with theories within the area of CSR, SRI and active ownership. The lack of specific theories on active ownership through engagement in CSR issues required the golden middle road as scientific approach since this approach enabled me to interact between theory and empirical reality.

Conclusions to be drawn from this study is that investment companies do not to a great extent work as social responsible investors by engaging in CSR issues. The reason for this is that the investment companies do not perceive that they are responsible but that the responsibility is rather on each of their holding companies. Another reason for not working with CSR issues is because their shareholders do not require them to do so. There is still a great lack of understanding of CSR and its possible connection to financial performance. If the investment company work with CSR it is either due to risk minimizing reasons or pure philanthropic reasons and not at all based on the fact that CSR can lead to innovation and competitive advantage.

The main difference between the fund companies and investment companies is that the fund companies have formalized their work with SRI and engage actively in CSR issues as owners but only in the so called SRI funds which are a significant small part of total invested capital and it is still hard to integrate CSR into the mainstream analysis. The other difference is that investment companies have greater ability to influence its holding companies if compared to the fund companies, and the investment companies use this possibility but mainly in issues such as strategic planning and financial performance and not so much in social or environmental issues.
KEY CONCEPTS

Following concepts are the key concepts that are central and constantly recurring throughout this study.

- Corporate Social Responsibility
- Social Responsible Investments
- Engagement
- Holding companies
- Active ownership
- Investment companies
- Fund companies
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- Attitudes towards Social Responsible Investment and Corporate Social Responsibility
- Active ownership and engagement in CSR issues

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- Direct and indirect work with SRI and CSR issues
- Attitudes towards Social Responsible Investment and Corporate Social Responsibility
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1 INTRODUCTION

In this chapter I will give the reader an introduction to the chosen subject. I will start by presenting the problem background that will end up in the problem statement and the purpose. The introduction will also present the study’s delimitations, definition of key concepts and finally a disposition of the study.

1.1 Problem background

One of the most debated issues within the business world of today is the popular term Corporate Social Responsibility which deals with the idea that business has a broader responsibility than creating shareholder value. A social responsible company will take responsibility for the social, environmental and economic impact of their business activities and doing so with all their stakeholders best in interest. There is no doubt that the development of CSR has just started and during the last years there has been a shift from looking at CSR as an altruistic and philanthropic tool to a realization that CSR should be incorporated into the strategic management in order to create maximum value for all stakeholders, from shareholders to factory workers. Leading companies have realized that there is no longer a contradiction between being a successful company and at the same time be at the forefront of sustainability. There are a number of reasons why CSR makes business sense and therefore can create value for business and its shareholders, such as increased brand value, a tool for identify and manage risks, motivate employees, satisfy customers and increase innovation.

Certain industries have adopted and developed CSR further than others, in Sweden forest companies are among the most successful whereas financial companies are ranked among the ones that work least with issues such as the environment and human rights. This can to a certain extent be explained by the fact that the financial sector are posed to significant lower CSR risk when conducting their business activities compared to companies in the forest or retail industry.

Even if the direct environmental and social risks are lower in the financial sector their indirect responsibility as owners should not be neglected. By providing capital investors have a responsibility to ensure that the capital is invested into activities that are creating long term value for all stakeholders and high returns to the investor and its shareholders. By considering CSR issues before investing in a company but most importantly during their ownership the investors have the power to be positive forces towards a sustainable development and at the same time create economic value for them selves and their shareholders, both in the short run and the long run.

As mentioned above sustainability issues within the financial sector is a relative new phenomenon but research and practices are catching up and one term that is becoming increasingly popular is the concept of SRI, Socially Responsible Investments that refers to the way investors should consider sustainability issues when making an investment and working with its holding companies. There are currently a number of international guidelines and principles within the area of SRI such as the Equator Principles Financial Institutions (EPFIs) which is a set of principles developed by the International Finance Corporation in order to ensure that project investments are socially and environmentally sound. The latest and most well know

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2 Folksam Index för ansvarfullt företagande (2006)
4 The equator principles, www.equatorprinciples.com 2007-03-22, 14.10
principles within the area of responsible investment are the UN Principles for Responsible Investment developed by the UN Global Compact and United Nation Environmental Program. The UN PRI functions as guidelines for the financial sector in order to help investors to take into account the social, environmental and economic impact of their investment and hence avoid any surprises that might harm the investors. SRI has been welcomed and applied by traditional institutional investors such as fund and insurance companies but when looking at investment companies investing in private equity, venture capital etc. the awareness of SRI is still very low.

Historically CSR issues are regarded to be expensive without creating any measurable economic value in the short run. However empirical evidence show that companies that engages in CSR issues are up to 18 % more profitable than companies that ignore these issues. Other studies shows that high sustainability rated portfolios outperform low rated portfolios significantly over a long time horizon and slightly better over a short time horizon. Hence evidence indicates that being a social responsible investor by engaging in corporate social responsibility during the ownership of a company is a smart way to create economic value and at the same time make a positive contribution to society. However reports and studies show that the investment companies are lagging behind when it comes to use the full potential of their power as owners to influence their holding companies. In order for CSR to become fully integrated into the business actions and strategies of companies it is crucial for companies to recognize that investors reward CSR. This will create incentives for companies to continue and increase their efforts in finding new and innovative ways of taking social responsibility and thereby contribute to a sustainable development.

1.2 Problem statement

Do investment companies work with social responsible investments by engaging in corporate social responsibility issues when practicing their ownership in a holding company?

1.3 Purpose

The purpose of this study is to create an understanding of if/how investors work with social responsible investments by engaging in corporate social responsibility issues, mainly during the ownership of a company. Further on the study aims to identify the differences between investment companies compared to fund companies when it comes to interest in and promotion of CSR issues as owners. Finally the study intends to create an understanding for the attitudes towards corporate social responsibility and social responsible investments from the investors’ point of view.

1.4 Delimitations

My study will only investigate a small number of companies with the aim to create an understanding enabling me to answer the above mention problem statement. I am aware that no general conclusions can be drawn from this study, which neither is my purpose since the study is of hermeneutical epistemology and not positivistic. I consider that the empirical reality investigated will be enough to serve the purpose of the study and get an understanding of the chosen subject. I have chosen not to include how the investors’ work

with social responsible investments by engaging in corporate social responsibility issues when practicing
their ownership in a holding company are affecting and regarded by the investors own shareholders nor the
employees of the investor but rather make the study from the investors perspective since this is the
perspective that best fit the purpose of this study.

1.5 Definitions of key concepts

In the following section I present and define some central concepts that are crucial for the reader to be
aware of in order to understand and follow this study.

Active ownership: Active ownership is a term that describes how investors work actively with their holding
companies; it can be through the board or through active dialogue with the management etc. An active
owner usually influences their holding companies in issues such as strategic planning, industrial
development, financial performance etc. But there are also owners that work with SRI that influence their
holding companies in CSR issues.

Institutional investors: Institutional investors are often referred to as large fund, pension and insurance
companies. However an institutional investor is actually an investor who’s primary focus is to invest and
manages someone else’s assets and hence all the investors that I have included in this study is to be regarded
as institutional investors.

CSR: Corporate Social Responsibility refers to the environmental, social and economic responsibility of
business. There is no unitary or globally accepted definition of CSR but the overall purpose of CSR is how
the business takes responsibility for all its stakeholders and not only the shareholders. A corporate social
responsible company should be aware of its social and environmental risks that it poses on society and work
to reduce the negative impact of its action and maximize the positive impact.

SRI: Social Responsible Investments refers to investors that have taken into consideration Environmental,
Social and Governance issues when investing and engages in ESG issues during the ownership of the
company.

Sustainable development: Development that meets the need of the present without compromising the ability
of future generations to meet their own needs.

Holding company: This refers to the companies that investment companies and fund companies invest their
capital in.

12 My own definition of a holding company.
1.6 Disposition

Introduction
I will give the reader an introduction to the chosen subject and start by presenting the problem background that will end up in the problem statement and the purpose. The introduction will also present the study’s delimitations, definition of key concepts and finally a disposition of the study.

Methodological viewpoints
This chapter contains description of the methodological viewpoints for this study starting with choice of subject, preconception and my own preconception, the approach to reality, point of departure. I will continue the chapter by presenting the perspective of this study and finally I will explain for the reader what secondary sources I have used and some criticism to the secondary sources.

Theories on social responsible investments, corporate social responsibility and active ownership.
This chapter aims to give the reader an understanding of the theories used as a framework when conducting the interviews and finally answer the problem statement. The chapter is divided into four main areas, Investment industry, Social Responsible Investments, Corporate Social Responsibility and Active ownership.

Practical research method
The practical research method describes how I have conducted my study and I also explain the choice of research method, the interviews and the access, the collection of empirical data. The chapter ends with criticism towards the primary sources.

Empirical findings showing how/if investors work with SRI by engaging in CSR issues.
In this chapter I present the empirical data collected from the interviews. I have chosen to present each of the companies separately in order to show the characteristic of the different investors. I will start by presenting Banco, followed by Robur, Ratos, EQT and finally MSAB. In order to give a brief introduction to the companies I introduce them in a table showing some characteristic of the companies.

Analysis of the empirical data
The analysis of the empirical data will be done by analyzing the empirical findings by interpreting it with the theories. I will use the theories that are appropriate for the findings of the study and also the theories that are not coherent with reality since this is also an important finding. I have chosen to analyze each of the sections separately following the same headings as in the empirical framework I will use sub headings in the headings showing which of the theories I am using for the analysis since this will enable the reader to follow the analysis.

Conclusion and discussion
In this chapter I will start by answering the problem statement and purpose of this study. I will continue by discussing the overall most important results of the study. I will end the chapter by presenting some ideas for future research.

Criteria of truth
The criteria of truth will give the reader some necessary information about the criteria of truth of this study. I have chosen to include four criteria that I find appropriate for this study; validation, inter subjectivity, practical applicability and finally the systematic used when collecting and analyzing empirical data.
2  METHODOLOGICAL VIEWPOINTS

In this chapter I will describe the methodological viewpoints for this study starting with choice of subject, preconception and my own preconception, the approach to reality, point of departure. I will continue the chapter by presenting the perspective of this study and finally I will describe how the secondary data have been collected and criticism to the secondary sources.

2.1  Choice of subject

The original choice of subject was born during a meeting with Christina Båge at CSR International in February 2007. Initially I had decided that I wanted to write my master thesis within the field of CSR and strategy and therefore I contacted a number of consultancy firms that worked within this field. The main reason behind the choice of subject is my personal interest in social and environmental issues as well as it has become a well known concept in the Swedish business world of today and therefore an interesting topic to learn more about. This is indeed an interesting topic but after a while I realized that it was not an appropriate subject for a master thesis due to the relative short time I had for writing the thesis. The new subject was born after following recent debates in media dealing with the issue of investors’ responsibility in social and environmental issues since the investors power is increasing due to more and larger investments. This debate in combination with the lack of research done within the field of active ownership and social and environmental responsibility raised my interest to understand and investigate this topic. The fact that there is not that much research within the area gives me an opportunity to create some new theories that hopefully can contribute to the research within the field of corporate social responsibility, active ownership and socially responsible investments.

2.2  Preconception

When writing a thesis the author can never approach the chosen subject neutral and this is referred to as the author having a preconception. Preconception is the authors’ previous understanding which originates from his/her education, environment and personal experiences. Preconception is divided into three areas, the common preconception, the theoretical preconception and epistemology. Common preconception refers to personal experiences such as upbringing, adolescence and living environment. The theoretical preconception on the other hand depends on the author’s academic background and theories that the author has experienced in his/her academic background. These two preconceptions will affect the author’s way of approaching the chosen subject and the final result of the study. The positive aspect of preconception is that the author holds a previous knowledge of the subject which will make it simpler to approach the research. The author’s preconception might also have a negative impact on the research since it prevents the author from holding an objective view which in some research is desirable in order to achieve the best results.

Since the autumn of 2002 I am a student at Umeå School of Business where I have studied business administration. I have chosen to concentrate my studies at USBE on management & change and international business culture & communication. During the autumn of 2006 I was doing an exchange semester at INCAE Business School in Costa Rica where I studied mostly sustainable business, corporate

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15 Ibid.
strategy and economic and political risk. INCAE is well known for its strong profile in sustainable development and these issues are highly integrated in all courses given at the school which absolutely have influenced my knowledge and experience within the field of sustainability and business.

My interest for sustainability issues have grown during my years at USBE. The fact that there has been a lack of these issues in the education has made me develop a personal interest since I believe that sustainable development is something that should be at heart for all business. The bachelor thesis was one opportunity where I decided to learn more about CSR, and more specifically in the tourism industry. This work further strengthened my knowledge and interest about CSR issues. I believe that my interest for corporate social responsibility originates from a strong sense of fairness and ethics as well as a broad interest in societal and global development issues, which I believe to a great extent originates from my upbringing and adolescence.

Both my academic preconceptions and common preconceptions will obviously affect the way I attend the chosen subject. This is not necessarily something negative but something that makes this research and its results unique. I believe that my interest and knowledge for these issues will affect the study in a positive way since my burning interest will push me to do a good work. I have chosen to study investment companies and fund companies due to the fact that my preconception is that fund companies work with social responsible investment by engaging in corporate social responsibility as active owners to a greater extent than investment companies. These preconceptions will probably shape the way I approach the investment companies and how I analyze the collected data. I am aware of this and I will try to avoid my preconceptions to have a too great influence on the empirical reality.

There is also a possibility that my preconceptions and the fact that I am writing alone will make me attend the subject more subjectively than if I would have done the research with a partner. To reduce the subjectivity and avoid that my preconceptions affects the results to much I will take help from friends and family to read and comment the texts and thereby get different perspectives on my research.

### 2.3 Approach to the reality

The epistemological approach is a scientific method that explains the reality. There are two dominant epistemological approaches, the positivistic approach and the hermeneutic approach. The positivistic approach has its roots in the natural science whereas the hermeneutic approach derives from social science and is often regarded to be a reaction to the positivistic approach. The hermeneutic researcher believes in explanation and understanding of the broad and complex reality whereas a positivistic researcher on the other hand observes and explains the reality with the aim to confirm or reject an existing theory. A positivistic researcher keeps an objective view to the research as well as a distance to the respondents. This is important since the positivistic researcher aims to minimize the effects that his/ hers preconception can have on the research. The positivistic researcher focuses on explaining the reality as it is captured by our senses. Knowledge is regarded simply as what we can observe and explain. Positivistic researcher emphasizes on collecting a great amount of data and by using this data the researcher will be able to develop knowledge.
through generalizing the obtained information. By the large quantity of data the researcher will be able to present logical and general conclusions of the reality.

According to the hermeneutic approach it is not desirable or even possible for the researcher to objectively observe the reality. Hermeneutic researchers have a subjective and near relation to both the research and the respondents which will help the researcher to gain a deeper understanding of the complex reality. When conducting hermeneutic research the researcher is focused on studying a few cases thoroughly since this is seen as the best way to get a deep understanding of the studied reality. When interpreting the collected data the researcher should aim to give a sincere illustration of the reality studied. Opposite to the positivistic approach the hermeneutic researcher believes that preconception plays an important role since it gives the researcher a distinctive way of looking at the reality which will affect the result of the research.

I have chosen the hermeneutic epistemological approach since the purpose of this study is to create an understanding of the investors’ engagement in CSR issues as active owners. In order to fulfill the purpose I need to obtain rich and deep information and therefore the hermeneutic approach is most suitable and not the positivistic approach since this is characterized by distant observation of the studied reality and hence wont enable me to answer the problem statement and fulfill the purpose. Further on the hermeneutic epistemology fits my study since I have chosen to collect the primary data from a relative small number of sources. I believe that my preconception will play a vital part of my final results of the research which is a central and important part of hermeneutical research and another reason why the hermeneutic approach fits the purpose of this study.

### 2.4 Scientific approach

The scientific approach can be seen as an explanation of how theory and empirical data will relate to each other in the research. Scientific approach is strongly related to the epistemology and there are mainly two dominant scientific approaches, deduction and induction. Deduction is usually connected to positivism and hence induction is connected to the hermeneutic standpoint. When a researcher is deductive he/she starts with already existing theories and collects empirical data that will be connected to the chosen theories. Induction on the other hand occurs when a researcher starts with collecting empirical data with the aim to develop a new theory.

Deduction is referred to as an approach where the researcher compares existing theories with the reality to test if the theory is coherent with the empirical reality and the purpose is to dismiss or confirm an existing theory. Hence the researcher can draw general conclusions of the studied reality. The majority of the work when using a deductive approach is carried out before the collection of empirical data. For the
researcher to be able to draw general conclusions it is important that the right sample is selected for the collection of data. It is also crucial that the researcher develops a model with correct variables in order for him/ her to analyze the collected data.\textsuperscript{12}

Induction is the opposite from deduction and an inductive researcher starts with empirical research and from the results the researcher develops a new theory. A researcher using the inductive approach creates theories by investigating and analyzing the reality and it is therefore important that the researcher keeps an open mind and is curious when conducting the empirical research\textsuperscript{13}. Knowledge is seen as something that the researcher creates by observing and understanding the reality and it is vital that the empirical process is not restricted by already existing theories. An inductive researcher makes the major part of the research after collecting the empirical data during the analysis and understanding of the obtained information.\textsuperscript{14}

Finally there is a third approach which is called the “golden middle road”.\textsuperscript{15} This approach is an approach which lies in between the deductive and the inductive approach. The golden middle road is a result of difficulties in using purely deduction or induction.\textsuperscript{16} When using this scientific approach the choice of epistemology is crucial. If the researcher is positivistic and using “golden middle road” he/she starts by collecting empirical data and compares this with the chosen theories and then if there is a need the researcher will continue with the empirical research.

A hermeneutic researcher using the “golden middle road” on the other hand begins with a number of theories and then continues the empirical research and finally develops a theory. The priority is not to confirm or dismiss the chosen theory but rather to use the theories as a framework and starting point when approaching the empirical reality.\textsuperscript{17}

The scientific approach that is most appropriate for my study is the golden middle road with an hermeneutic approach to the reality. When conducting my research the priority will not be to confirm an already existing theory or to focus only on the empirical reality but rather to use some appropriate theories as a starting point when approaching the empirical reality. Depending on the results from the empirical research I might need to go back to theories and hence there will be a reciprocal interaction between theory and empirical reality. The fact that there is a lack of theories on how investment companies work with corporate social responsibility through active ownership my goal will be to create new knowledge within this area which can be used as a base for future research. This way of working is most coherent with the golden middle road approach and hence the approach I have chosen for this study.

\textsuperscript{12} Johansson Lindfors. Att utveckla kunskap, om metodologiska och andra vägval vid samhällsvetenskaplig kunskapsbildning, 1993, 55-56.
\textsuperscript{13} Ibid., 57-59.
\textsuperscript{14} Ibid., 58-59.
\textsuperscript{15} Ibid., 59.
\textsuperscript{16} Ibid., 154.
\textsuperscript{17} Ibid., 60.
Perspective

Preconceptions can not be erased from a person’s intellect since they derive from background and personal experiences. Thanks to the preconception different individuals view the world with diverse perspectives and thereby build their personal reality. 18 When choosing a perspective it is crucial to choose the correct one since it will affect the analysis of the empirical data and most importantly the final results of the research.

I find that the perspective most appropriate for this study is the investor perspective, since my aim is to create an understanding of if/how investors work with social responsible investments by engaging in corporate social responsibility issues, mainly during the ownership of a company. Further on the study aims to create an understanding for the attitudes towards corporate social responsibility and social responsible investments from the investor’s point of view and hence the investor perspective is the one that fits the purpose best. It could also be argued that it would be possible to have a societal perspective that focuses on what value CSR brings to society since that is one of the main ends with corporate social responsibility and social responsible investments. Still I have chosen to focus on how the investors consider and engage in these issues rather than on what value it brings to society, which is a perspective that truly would be interesting for future research.

2.5 Secondary sources.

When searching for theoretical data a researcher uses secondary sources which is material collected and produced by other researcher. 19 Secondary sources can be data from books, articles and research reports. 40 Also databases are seen as secondary sources and today the databases are one of the most important tools when searching for secondary data. 41 When collecting theories for the theoretical framework used in my thesis I have mainly used the databases provided at the University library webpage, such as Business Source Premiere and Emerald.

Important keywords which I have used when searching for scientific articles have been:

- Corporate Social Responsibility (CSR)
- Socially Responsible Investments (SRI)
- Corporate engagement
- Private equity
- Shareholder activism
- Active ownership
- And combinations of these keywords together.

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40 Ibid.
2.6 Criticism of secondary data

In order to guarantee an applicable and fair result when collecting theoretical data it is important that the sources used are serious and reliable. By being critical towards the sources used one can increase the chance that the source is valid and appropriate for the research. To be critical when searching for and interpreting the theoretical data is crucial since this will affect the certainty of the research results.

The secondary data used in this study is mainly scientific articles and some literature within the area of CSR, SRI and active ownership as well as some reports from international bodies such as the UN and some magazines within the area of CSR and SRI. It is recommended to use mainly scientific articles in a master thesis and therefore I have not used many books since my experience is that most of the interesting and appropriate theories have been found in scientific articles. However I have used books for the method chapters since I have found that the most appropriate theories on methodological viewpoints have been found in literature and not articles. Regarding the books used for the method chapters I am aware that some of them are from the mid 90’ies, such as Johansson Lindfors, however I argue that since it is the latest edition and a well known researcher the information collected from these sources is trustable.

I have also used some research reports, mainly within the area of active ownership that have not yet been published and hence not reviewed which lowers the reliability of these sources. I am aware of this but have however decided to include these reports since the results are interesting for this study. Most of the articles used for the CSR and SRI part of the theories are written the last years whereas some of the articles used for the active ownership part are rather old. I have considered this but since it has been hard to find good articles within this area of active ownership I argue that as long as I am aware of the fact that these articles are not fully up to date and make the reader aware of this I believe that there is no reason not to use them as secondary sources.

The information collected from the internet is mainly from organizations such as the United Nations and forums and organizations specialized on SRI and CSR. I am aware of the fact that it is important to be careful when using information from the internet but I regard the information from the internet used in this thesis to be trustworthy and valid since it is collected from organizations that are well known and recognized.

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3 THEORIES ON SOCIAL RESPONSIBLE INVESTMENTS, CORPORATE SOCIAL RESPONSIBILITY AND ACTIVE OWNERSHIP

In this chapter I will present the theories that I have used as a framework when approaching the empirical reality. The chapter is divided into four main areas, Investment industry, Social Responsible Investments, Corporate Social Responsibility and Active ownership.

3.1 Investment industry

This part is not pure theories that will be used when analyzing the empirical data but rather a necessary introduction to the investment industry and the differences between the actors that exist on the financial market that I have included in this study.

There are a number of investors defined as institutional investors, such as insurance companies, fund companies, investment banks, commercial banks, and investment companies or owner companies specialized in investments such as private equity, public equity, buy outs etc. However the definition of an institutional investor is simply described as an investor that manages someone else’s money. I will briefly describe the characteristics of the investors that I have included in my study.

Private equity: This form of investors has specialized in buying companies that are not listed on the stock market and hence the equity is not freely traded on the public market. The investment can also be done in public companies that due to the investment are taken private. There are around 2700 firms worldwide and in 2006 these companies raised 432 USD. Private equity companies account for around 7% of capital on the global equity markets. There are different kinds of private equity investments, such as leverage buy outs which refer to when the investors buy a public company and then the company is taken private, venture capital which are investments specialized in high risk and growth industries like for example environmental technique, business angel capital/investments which often refers to private investors investing in a business idea with the goal to help develop the business etc. All these forms differ a lot but have in common that the investor work together with the management of the acquired firm as normally very active owners during a limited period of time to create value before the exit of the acquired company.

Fund companies: Fund companies are companies that invest in a big number of public or private companies in order to get diversified portfolios and hence spread the risk for their shareholders. Usually the fund companies have many different funds differing in size of the companies, industry, market etc. There are many different kinds of funds like, interest funds, mixed funds and index funds. Fund companies differ to the other investors included in this study mostly since they buy significant smaller parts of the companies and hence their possibility to influence is lower than for other investors that buy to control their holding companies.

Public equity: Refers to investors that buy equity in public companies. The strategy of ownership can differ from being very active owners that influence the management greatly to more passive owners. Investor that buys public equity can be financial groups, historically large owners that usually focus on

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industrial development of companies. The kind of ownership behavior depends on the need of the acquired company but of course also on the investor and their strategy.  

For the reader to understand how these investors can act to contribute to sustainable development the following chapter about social responsible investments is necessary.

3.2 Socially Responsible Investments

In the mid 1990 the expression Socially Responsible Investments (SRI) was relatively new and it is primarily during the last years SRI has grown to become fairly common in some parts of the financial world. Investors devoted to Social Responsible Investments identify and invest in companies that work actively with CSR issues. Investors that work with SRI are evaluating companies on CSR issues, analyzing companies’ corporate social and environmental risks as well as being engaged in the companies work to improve their CSR activities and policies.

In 2006 the United Nation launched the Principles for Responsible Investment which further raised the awareness on responsible ownership. The trend of today is not for the investor to exclude companies that are not working actively with CSR issues, but the focus is rather on encouraging and influencing the companies to work more with these issues. This is primarily done by active ownership and dialogues with the management. The level of engagement depends upon the type of owner and the owners’ possibility to influence the management and the strategies of the company. Owners such as private equity companies, financial groups, venture capital companies has normally strategies for their owner behavior and usually they are more actively engaged in the strategies, financial performance and keeping dialogue with the management when comparing to fund companies. The fund companies do not have the same possibility to influence since they usually only hold very small part of a company’s total shares and hence their power is much lower than for i.e. private equity investors that almost always invest to have control. However if looking at what kind of investors engaged in SRI issues and especially when looking at the Swedish members of UN PRI they are represented by some of the big fund and insurance companies and no one of the more traditional investment companies.

3.2.1 Principles and guidelines for socially responsible investment

There are a number of different international bodies and organizations that have established principles and guidelines specialized to help different investors’ needs and interests. The most famous and recently presented is the United Nations Principles for Responsible Investment (PRI) that was launched during 2006. I will focus on the PRI since these are the most general principles targeted to all kind of investors all over the world. There are also other principles such as the Hermes principles and the Equator principles.

Ibid
The UN Principles for Responsible Investments (PRI)

The PRI was developed during 2005 by 20 leading institutional investors from 12 countries and the group had the freedom to develop the principles as they believed was the best for the industry. To their help the investors had a group of 70 stakeholders consisting of experts from investment industry, civil society, governmental and intergovernmental organizations, civil society and universities. The whole process was also overseen by the UN Global Compact and the UN Environment Programme Finance Initiative.

The principles include all so called CSR issues, environment, social and governance. The principles goal is to act as a framework for investors in order to achieve higher long-term investment returns as well as more sustainable financial markets. The principles can be said to represent the core values of the world’s biggest investors that uses a long term investment horizon with diversified portfolios.

These are the main areas in the Principles for Responsible Investments:

1. Incorporate CSR issues into investment analysis and decision-making processes.
2. Be active owners and incorporate CSR issues into our ownership policies and practices.
3. Seek appropriate disclosure on CSR issues by the entities in which we invest.
4. Promote acceptance and implementation of the Principles within the investment industry.
5. Work together to enhance our effectiveness in implementing the Principles.
6. Report on our activities and progress towards implementing the Principles

When talking about SRI it is important to distinguish between the two components, screening and engagement. I will primarily focus on the latter, the engagement and I will later in this chapter introduce more theories that resembles to engagement; active ownership. Active ownership is focused on the owners being engaged in other more conventional issues such as financial performance and strategy building and not CSR issues. In order for the reader to understand the problem as well as to fulfill the purpose of this study I find it necessary to briefly explain the screening since it is a central part of the SRI concept. The ultimate situation is when the investor combines both screening and engagement since the investor by doing so gain more control over the whole investment process, both before as well as and during the ownership.

3.2.2 Screening

Screening refers to the process the investor conducts before making the investment. Negative screening is focused on eliminating certain companies and positive screening on the contrary focuses on including well performing companies with well developed policies and actions on CSR issues. The criteria used in the screening process differs a lot in both quality and profoundness, from screening that excludes certain industries such as tobacco and weapons to more detailed screening that identifies the best performing CSR companies in an industry. Screening usually include criteria such a product quality, employee relations and human rights, stakeholder relation, corporate citizenship and work with environmental risks and impact. The issues that are investigated most thoroughly in the screening process vary depending on

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51 Ibid
53 Carlsson Reich et al Ethical investments-Towards a sound Theory and Screening Methodology Swedish Environmental Research Institute IVL (2001)
54 Henningsen, Investing as if the world really mattered Corporate Environmental Strategy, Vol. 9, No. 2 (2002)
industry and hence the risks that the company pose on its different stakeholders and the environment. Environmental screening is today highly focused on how the companies handle climate change and other environmental issues that have gained increased attention whereas for instance tobacco screen is focused on health and social issues. 

3.2.3 Engagement

Engagement is how the investor is encouraging and demanding the company to work more with CSR issues. The engagement can be when the investor demands the company to develop a policy for child labor if the company has proven to have insufficient control over these issues. One example where the ownership policy didn’t work is the case of the Swedish company Clas Ohlsson where the fund company Banco sold its shares since the company didn’t show willingness to take responsibility for the fact that their suppliers used child work and had overall unaccepted working conditions in their production in China. Banco tried several times to influence Clas Ohlsson to take actions and create a policy to ensure that this type of serious violation of the human rights would be stopped, but when nothing had happened during a rather long period of time Banco decided to sell its shares. Another case that shows the power of shareholder activism was when shareholders/investors forced companies to move out or improve their business practices during the apartheid regime in South Africa. This led to a situation where more than 200 international companies closed their operations and broke all relations to South Africa until the country had put an end to the apartheid regime.

The above mentioned cases are extreme but I argue that they function as good examples showing how shareholders engagement really has lead to action and change. Carsten Henningsen who is one of the pioneers in the field of SRI defines a number of ways for the investor to influence companies to work with CSR and sustainability issues. One of the most effective but usually not the first action is for the shareholder/investor to file a shareholder resolution on the subject that the investor wants to discuss. This resolution will then be put to a vote at the annual meeting and if successful the voting outcome will convince the management to change policies and behavior. More common tools that shareholders use when aiming to influence a company’s work with CSR issues is letter writing, connection over phone or face to face meetings where the latter has proven to be the most successful when focusing on issues such as CSR. If none of the previous tools are successful the last step to get the management’s attention is by resolution or for the investors to sell its shares in the holding company, a so called exit.

3.2.4 Obstacles and barriers

Even if there are many ways for investors to influence their holding companies there are still some barriers to overcome for the investor to truly engage in CSR issues. One of the most important goals for an investor that want to act responsible and encourage the company to engage in CSR issues is to work with a long term time horizon. Normally CSR issues require time and if given it can bring value to the business in terms of stronger brand, new business opportunities, lower costs, engaged employees, efficient risk management etc. Since the financial market in some ways is characterized by the opposite with fast value increase, quarterly financial reports and extreme focus on measurable financial data there are some obstacles to overcome.

According to Danyelle Guyatt there are a number of behavioral barriers that investors need to overcome before they can adapt and become socially responsible investors. I think that the findings from Guyatt’s

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57 Ibid.
research based on a number of British institutional investors are a good summary of the characteristics of the financial markets and therefore I have summarized the main findings from this research.\textsuperscript{58} According to the findings the three following obstacles are the most crucial to overcome.

**Short-term focus on the financial markets**

Guyatt argues that there is a conflict between short term trading and long term value creation since the investors are almost seduced by the market to over-emphasize short term cash flow on the cost of long term sustainable value creation. Empirical evidence show that the active investor, and not the passive, are most likely to be pulled towards this short-termism since they actively follow the movements on the market and hence are more affected by other investors that trade on a short term horizon. An investor with long term horizon run a greater risk to be vulnerable to the short term investor since it is hard to invest with a time horizon on 10 years when the rest of the market is trading quarterly. The short term investor is the one that decide the market price and therefore the long term investor gets more or less forced to follow the rules of the market. Another aspect that encourages short termism is that the trustees are looking at performance from a short term perspective measuring the increase of value each quarter and hence the fund managers are measured on their performance quarterly rather than on a five year basis.\textsuperscript{59}

**Domination of calculable financial criteria**

Another obstacle is the focus on decision making based on conventional criteria such as measurable financial data and quarterly performance rather than unconventional and new criteria such as for instance the CSR performance of a company. Since investors need to justify why they made a certain investment or why they choose to expand their engagement in a company it is often easier to do this by using conventional and popular criteria. If the decision proves to be wrong it is easier for the investor to defend the choice of action when based upon conservative and well known criteria. Since CSR issues and socially responsible investment is a rather new area on the financial market the investor can find it hard to base an investment decision on these criteria due to the risk of not being trusted if doing so. I do understand this argument and that it is hard to change attitudes on the financial market since the investors are used to the more measurable criteria and very focused on clear financial performance. However there is no empirical evidence indicating that companies actively engaged in CSR are performing worse than other companies but rather empirical evidence indicates that SRI are outperforming the more conventional based investments.\textsuperscript{60}

It can be argued that the financial market still has a strong believe in Keynes words from 1936:

*"Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.*\textsuperscript{61}

\textsuperscript{58} Guyatt Meeting objectives and resisting conventions- A Focus on institutional investors and long-term responsible investing, Corporate Governance, vol. 5, No. 3 (2005)
\textsuperscript{59} Ibid
\textsuperscript{60} Eveline Van de Velde, Vim Vermeir and Filip Corten "Corporate social responsibility and financial performance", Corporate Governance, vol. 5, no 3 (2005)
\textsuperscript{61} Henningsen, *Investing as if the world really mattered* Corporate Environmental Strategy, Vol. 9, No. 2 (2002)
Long Term Responsible Investment separated from the core investment process

The last obstacle is how and where in the organization the SRI issues are handled and if these issues are integrated into all decision making processes or a separated area secluded from the core investment process. The findings indicate that these issues are usually not at the core of the investment process but rather done by either an external or internal specialist that is separated from the core investment teams. Of course it is good that the investors are considering these issues but at the same time this might lead to a situation where the core investors with a clear conscious can ignore these issues since it is already “taken care of” by the other team and hence the more conventional investors can continue to ignore these issues.

One of the reasons why CSR issues are not integrated into the core of each investment derives from the difficulty of valuating these more intangible criteria. The investors argue that it is difficult to integrate these issues into market wide conventions since the market is focused on short termism pricing based on financial criteria rather than CSR and SRI criteria. Another reason is the skepticism that CSR issues might just be a new trend that will eventually fade out which lower the incentives for the investors to integrate these issues into their core investment process. However findings indicate that the investors are aware of the fact that CSR can be important when evaluating a firm’s long term value. But as long as there is no tangible proof that CSR issues are increasing financial results the reluctance to integrate these issues into conventional models of decision making remains.

The above mentioned theories have explained what and how investors can work to contribute to a more sustainable society and hence be a social responsible investor. In order to understand why and how they can do this I argue that it is crucial for the reader to be presented to the debated area of CSR, Corporate Social Responsibility since CSR issues are the issues that the Social Responsible Investors are working with when making their screenings and engagement in the companies.

3.3 The evolution of corporate social responsibility

The literature and research within the area of corporate social responsibility has increased tremendously during the last years and there is currently a great amount of scientific articles that tries to explain, define and give example on how business are and can engage in CSR issues. Many of the articles I have read resemble in conclusion and results and therefore I will give a summary of how most researcher describe CSR. In order for the reader to understand that there are different opinions about these issues I will present the main opinions from both the advocates and the critics of CSR.

One of the earliest and most famous researcher that conceptualized CSR is Carroll who in 1991 defines CSR as a pyramid in four different levels, discretionary (philanthropic), ethical, legal and economic responsibilities of the business. The philanthropic responsibilities of business refer to the idea that business should be a good citizen and behave in a way that is good for society. The philanthropic responsibility is voluntary and today it is rather seen as charity since advocates argue that there should be no incentive for the business to create a profit due to the philanthropic action. Ethical responsibilities refers to the idea that business should avoid creating any negative impacts of its actions and do what is accepted by society and primarily all its stakeholders such as investors, shareholders, suppliers, customers, employees etc. When business do not respond to the ethical expectations of its stakeholders there will be no legal consequences but rather it can affect

\[ \text{Carroll} \] “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders” (1991)

Ibid
The business by creating a mistrust and negative media exposure which can harm the business.\textsuperscript{64} The legal responsibilities of business are according to Carroll to comply with the law. I do not agree with Carroll that the legal responsibilities should be included into the concept of CSR since it is obvious that a business operating in society have to comply with the laws. To obey the law is not something that business should be gratitude for but rather it is a matter of course.\textsuperscript{65} Economic responsibilities of business refer to the business creating profits for the shareholders by providing products and services demanded by society.\textsuperscript{66}

The reason for including Carroll’s view of CSR is that she is one of the researchers that is most quoted in articles when discussing the history and birth of the corporate social responsibility as a concept. I do however argue that there are today better ways of looking at CSR which is normal since there has been a lot of research conducted after Carroll.

Today the term CSR is usually divided into three different parts, environmental, social and economic responsibility. The environmental responsibility refers to the company taking responsibilities for their impacts on the environment. It can be the business ability to be eco-efficient in production, work actively with waste management, CO2 reduction, water management, choose suppliers that are environmental sustainable, develop environmental friendly techniques such as renewable energy etc.\textsuperscript{67}

The social responsibility of a business is referred to issues such as respecting the UN Human Rights, education and development of employees, active dialogue with employees, health and security issues being secured, gender equality, working conditions and the companies interest and contribution to a positive community development through community involvement actions.\textsuperscript{68}

The economic responsibilities of business are basically the same today as during the days of Carroll, to create profit for shareholders, job opportunities for society and a supply of products and services for consumers.\textsuperscript{69}

\textsuperscript{64} Carroll “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders” (1991)

\textsuperscript{65} Ibid

\textsuperscript{66} Ibid.

\textsuperscript{67} Holliday Charles O. Jr, Stephan Schmidheiny and Philip Watts. Walking the talk. The Business Case for Sustainable Development, 2002, 26

\textsuperscript{68} European Center for Corporate Engagement Use of extra financial information by research analysts and investment managers 2007

\textsuperscript{69} Carroll “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders” (1991)
The following model presents the basic idea of what CSR is and how it is connected to the bigger concept of sustainable development. The small triangles are to represent companies that by engaging in social, environmental and economic issues contribute to a sustainable development that is represented by the large triangle.

**Figure 1: The idea of Corporate Social Responsibility**

![CSR Model]

### 3.3.1 Levels of corporate social responsibility engagement

Christina Båge at CSR International defines a company’s CSR engagement in three steps. Even if this isn’t pure theory it shows how CSR consultants work when identifying a company’s engagement in CSR. In order to make it more theoretical I have included theories that explain the different levels. The reason for including this part is that I argue that it is important to get a piece of reality into the very scientific research that is used in this chapter. This way of looking at CSR is also found in many of the articles that I have used and that I will present later in this chapter.

**Step nr 1: Defensive CSR that focus on minimizing risks connected to the business operations**

This step can be said to derive from external factors such as reactions from NGO’s, negative media exposure, and customer boycotts etc. One good example of a company that has reacted to external pressure is Shell and the Brent Spar story that engaged Greenpeace and other environmental NGO’s as well governments and thousands of people all around the world. Shell claimed that this negative exposure cost the company millions of dollars and was the beginning of Shells now very active sustainability engagement. Shell is now known as one of the benchmark companies when it comes to CSR work. Nowadays I would argue that Shell is on step nr 2 since they are well known for their CSR and sustainability engagement.

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[70] My own construction

Step nr 2: Image building CSR that focus on building and maintaining the brand.

When eliminating risks connected to the business operations the company should start focusing on communicating their actions of responsibility and transparency which can improve the company’s relation to its stakeholders and increase the brand value. 72 It is very important to carry out this step after thoroughly identified the risks since the harm will be worse if the company communicates that it does take responsibility for its action and then the reality shows something different. One example of a Swedish brand that successfully has made its brand associated with CSR is the coffee roaster Löfbergs Lila. Since fair trade and ecologically grown coffee has become increasingly popular Löfbergs Lila has created a competitive advantage due to the fact that they were the first Swedish coffee roaster that started selling KRAV and Fairtrade labeled coffee. I can only look at myself when saying that I as a consumer always prefer to buy Löfbergs Lila since I feel that by doing this my purchase somehow contributes to a better life for the farmers. 71

Step nr 3: Proactive CSR that focus on innovation and business development, new ideas and new markets.

A company that is truly devoted to CSR will realize that being more responsible and sustainable opens up for innovation and business development and hence competitive advantage. One example of CSR as a tool for innovation is current trend in the energy sector and the innovation of new more environmentally friendly energy sources. Companies that take the issue of climate change seriously will have many opportunities to develop new business ideas that will be good for the environment and at the same time create revenues to the shareholders. Business ideas and innovations that are based on the idea of environmental sustainability can be divided into three different levels; the leapfroggers, the nibblers and the terminators. Leapfroggers are improvements of current technology, for instance it can be more eco-efficient products or services that allow the competition to take leapfrog ahead. Nibblers are more like innovations that take a bite, a nibble, at the current market share and constitute an indirect substitution to another technology, i.e. internet shopping such as e-bay. Terminators are the greatest innovations and these are the ones that immediately can terminate or substitute the current innovations on the market. A terminator is a less pollutant technology than the present and could for instance be biofuel if the biofuel was to replace the petroleum. 74

I have read a number of articles that discuss how and why companies engage in CSR issues and to avoid being repetitive I have chosen some articles that clearly states what most of the research within the area seem to agree on. There are mainly three reasons why companies engage in CSR and hence this should also be interesting for the investors since they will be affected of the holding companies work with these issues. The following three reasons are the most commonly mentioned in current research and debate of today and also the reasons that I believe are most relevant for this research since all of these three reasons can affect the revenue of the company and consequently also the investor.

1. Communicative reasons: to communicate a positive image of the company. 75
2. Strategic reasons: to influence the development of society in a sustainable manner. 76
3. Operative reasons: Costs and risks can be reduced. 77

78 Galbreath Corporate social responsibility strategy, strategic options, global considerations, Corporate Governance, vol. 6, no 2 (2006)
79 Smith Making the case for the competitive advantage of corporate social responsibility Business Strategy Series Vol. 8 No .3 (2007)
Theoretical Framework

One of the articles I have read summaries the more strategic way of looking at these issues and how companies can incorporate CSR into their strategic management. To look at CSR from a strategic and value increasing viewpoint is the most common approach presented in articles published the last 1-2 years and probably also what research will focus on in the future since CSR is becoming a new strategic tool for business development. In order for business to contribute to a sustainable development there is a need to find new innovative business solutions to all the challenges and opportunities that are present in the world today. If investors engage and promote CSR in their holding companies it is important to understand what kind of CSR they promote. This is interesting since it in the long run can lead to different revenues on the CSR investment which can affect future interest of the investor to continue to engage in these issues. Jeremy Galbreath has developed four different strategic possibilities for companies to engage in CSR issues based on corporate strategy as the foundation of CSR strategy.

The shareholder strategy

The shareholder strategy is based on Friedman (1970) meaning that business only responsibility to society is to be overall profitable and maximizing shareholder revenue. By doing so the business will create jobs and make products and services available to the market and hence the wealth created will be sufficient to meet the social responsibilities of the business. This is the neoclassic economic concept and can be said to have a pure economic focus that is based on the creation of short term financial value. Friedman argues that social responsibilities that goes beyond profit maximization can be possible but only if they improve the profits of the firm. Saying this it can be argued that as long as the CSR actions will be good for the business the advocates of shareholder strategy will be satisfied. Galbreath argues that even if the shareholder strategy is a short term strategy in today’s business world it is nonetheless a possible strategic option to CSR.

The altruistic strategy

The altruistic strategy is based on the idea that the business leaders should be “giving back” to the society and doing so by charity. The advocates of the altruistic strategy argue that business in it self do not have any responsibilities to society but the managers of the business should respond to the societal needs. Hence the social responsibility of business depends on personal values of managers and in some cases religious belief. The relation between the firm and society in this strategy is purely philanthropic and the underlying motives is “to do the right thing” without expecting anything in return from society. The outcomes of these goodwill actions can not usually be measured but will somehow affect the business, for instance it can give good PR for the business and hence increase the brand value and in the long run the amount of customers since it is shown that customers prefer companies that are known for being "good“ companies.

The reciprocal strategy

The reciprocal strategy takes strategic approach to corporate social responsibility and views is as good business since it creates a lot of benefits for the company. By taking on broader social responsibilities the firm will on one hand create benefits for society and on the other hand generate benefits to the business in the form of financial and other measurable rewards. This strategy can be seen as enlightened self interest since its goal is to maximize both economic objectives by intensifying social, moral and environmental issues.

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78 CSR En komplett guide från Dagens Miljö Dagens Miljö No. 3, (2007)
79 Galbreath Corporate social responsibility strategy, strategic options, global considerations, Corporate Governance, vol.6, no 2 (2006)
that are important to society. This approach is a win-win approach if it functions and some examples can be when a firm decides to reduce their discharge to a level that is much lower than the minimum level required by the law. By doing this the firm contribute positively to the environment and at the same time they can save money by being eco-efficient and by reducing regulatory intervention. These actions are investments that can create benefits in the long run, either pure quantifiable financial benefits or other benefits such as improved employee recruitment and stronger brand reputation. The idea of the reciprocal strategy is that the CSR activities should be tied to the core business and improves the bottom line in a way that creates positive societal returns.  

The citizenship strategy

The citizenship strategy is the most strategic and the business is viewed as a citizen in society with responsibilities to the other citizens. A firm should identify and keep an active dialogue with its stakeholders and responds to the stakeholder’s individual needs by incorporating it into the strategy formulation of the business. This leads to a CSR strategy that is specially directed to the different stakeholders such as employees, customers, suppliers, shareholders, the environment etc. For the business to be able to respond to every need of all its stakeholders is a tricky equation and to handle this situation the firm may categorize their stakeholders into primary and secondary stakeholders. The difficulties with the citizenship strategy are that there might be conflict of interests when trying to serve the different stakeholders. One example would be if a manufacturing company implemented a new environmental production standard that goes way beyond what is required by the law. In order to do so the company needs to lower the wages to cover up the extra cost that comes with the new standard. Hence the firm serves the environment and its needs by not serving its employees which shows the difficulties with the citizenship strategy. 

Due to the multiple stakeholder needs it is crucial to look at the citizenship strategy as a long term strategy and sometimes the long term value might be at the expense of weaker short term results. By offering full and open communication by publishing CSR reports and triple bottom line reports firms can leverage a citizenship strategy that aim for public transparency and accountability. In the end, by focusing on social responsibilities towards specific stakeholders, the goal is to increase long-term value creation for those stakeholders. Empirical evidence shows that firms that are committed to the citizenship strategy often can offer tangible rewards such as improved financial results, higher valued brands and market position. 

3.3.2 Criticism towards CSR

Since CSR is such a political and societal loaded issue there are of course many different opinions about the concept and its to be or not to be. Some critics argue that “the business of business is business” and that it is the government’s role to take care of the development and tackle issues such as poverty reduction, climate change and human rights issues. Other critics suggest that CSR is just another PR invention that will help business to increase its profit but that it doesn’t really serve any other purpose than for the business itself. 

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[83] Ibid
The advocates of the above mentioned idea that CSR is just a new PR and marketing tool argues that there is a need to change a lot in legal framework, financial markets, accounting standards and attitudes before CSR can really function and achieve the goal that it was meant to do.

In order for CSR to not just be a PR invention there are a number of factors that need to change.\textsuperscript{85} I have chosen to present the two factors that I believe are interesting for this study, which applies for the investors and factors that the investors have a possibility to influence.

1. CSR needs to be rewarded by the financial markets and which requires to a new method that measures the business performance. John Elkington was one of the first researchers that developed the so called triple bottom line that measures not only the financial performance of the company but also the environmental and social performance and the total impact of a company’s activities.\textsuperscript{86} Without a triple bottom line the CSR will not be reinforced by the market and there will be no incentives for business leaders to promote CSR.

2. The location of the CSR functions in the corporate structure. As long as CSR issues are located in the departments of external affairs or community affairs it will be a PR attribute rather than an important issue that is incorporated into the whole organization.

I agree that there are companies using CSR as a PR tool more than an ingredient when building new strategies. I also believe that it is a good idea to integrate CSR when measuring a firm’s performance and research within this field is developing. CSR issues are now being measured and increasingly noted on the financial markets when comparing to 2001 when the above summarized article was published. But the financial market is still one of the sectors where CSR is given least attention and in order for CSR to become truly a part of the business the financial market need to start rewarding the companies that work with CSR in monetary terms.

Other critics such as Sahlin Andersson argues that CSR is just a new trend and a movement that appears in three different ways, a new regulatory framework that puts more demands on firms, a management trend that is adopted by consultants in order to make business of all the new regulatory frameworks, rating bodies, customer interest groups etc that comes with the whole CSR trend that business need to tackle.\textsuperscript{87}

The other category of critics usually stress that CSR is not something for business to care about since business only responsibility is to create profits and value for their shareholders by complying with the existing laws. The main argument is that managers that use assets that belong to the shareholders by supporting good causes such as charity projects are not fulfilling their assignment and hence they fail to serve the shareholders.\textsuperscript{88}

So, finally I have come to the more practical part of the investors possibility to influence companies to influence companies, the so called active ownership.

\textsuperscript{85} Frankental Corporate Social Responsibility - a PR invention? Corporate Communication, vol. 6, no 1 (2001)
\textsuperscript{87} Sahlin Andersson Corporate Social Responsibility: a trend and a movement, but of what and for what?, Corporate Governance, vol.6, no. 5 (2006)
\textsuperscript{88} Ian Davis The biggest contract The economist, May 26th (2005)
3.4 Active ownership

Bech and other researchers have made a study on the relation between engagement and returns to shareholder by studying the Hermes U.K Focus fund engagement in holding companies. The Hermes fund has during a period of time been extremely successful when it comes to give returns to their shareholders. The annual raw return net of fees was 8,2 % per year if comparing to the FTSE all shares index and Bech’s results indicates that 90% of the Hermes fund returns are due to the Hermes managers being very active owners in their holding companies.  

3.4.1 Collaborative, mixed or confrontational owner behavior

Bech classifies the Hermes engagement into three different types; collaborative, mixed and confrontational. The easiest type of engagement for both the investor and the company is of course the collaborative where the company agrees on the changes the investor wants to make and implement theses changes in cooperation with the investor. Confrontational engagement on the other hand occurs when the investors’ objective is very different from the company’s objective. An engagement is confrontational when the CEO rejects the proposal from the investor or refuse to change attitude or behavior voluntary. A common effect of the confrontational engagement is that the CEO and/or chairman are replaced. Mixed engagement is as it sounds an engagement where the investor and the company don’t agree fully but where there are possibilities to find solutions less dramatic than removing the CEO or the chairman of the board. Mixed engagement is often more subjective than the collaborative or confrontational approach.

The Institutional Shareholders committee has developed a set of principles called “The Responsibilities of Institutional Shareholders and Agents – Statement of Principles.” These principles deal with the responsibility of the investor to intervene when necessary. Intervening should always be considered by institutional investors no matter if they have an active or passive investment policy. Issues where investor usually intervene is when they are concerned about the companies strategy, operational performance, acquisitions strategy, lack of internal control, inappropriate incentive programs, approach to corporate social responsibility etc. If the management doesn’t respond to the investor’s engagement in these issues the investor should consider actions such as, holding meetings with management concerning the specific issues, meet with the chairman or independent directors, submitting resolutions at shareholders meetings etc.

The ways that the investor can influence are different depending on the type of investor and of course the size of the investment in the company. Usually investors that invest in private equity, venture capital and other form of investments where the idea is to buy, create value and sell companies have active ownership strategies and great possibility to influence due to the size of investment. Joachim Heel and Conor Kehoe at Mc Kinsey analysis have made a study on private equity companies and returns on active ownership. The results show that successful private equity companies use five features that can be seen as a best practice when it comes to active ownership. Two of the steps refer to the traditional competencies of the private equity company such as securing inside knowledge about the firm which was thoroughly done in 83 percent

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of the best deals. The second step is to use performance incentives of rewards up to 15 to 20 percent of the whole equity targeted at the leading management of the company. The three last steps are according to the authors described as the true active ownership and refer to the engagement in corporate governance issues. The investor should develop a plan for the development of the company and as active owners review, measure and set out indicators to check that the company is on the right track. Investors that have used such a plan hold 92 percent of the best-performing deals. The fourth step is to devote time and engagement and keep an continuously discussion with the top management of the acquired firm. The meetings can be used as an opportunity to challenge management and to discuss the company’s real value creators. The last step that leading equity companies have proven to do is changing the management in an early stage of the investment.  

According to Per Strömberg on the Swedish Institute for Financial Research investment companies investing in private equity and venture capital that are specialized on active ownership and engagement have greater possibilities to influence their invested companies in the long run if compared to fund companies. The reasons for this are primarily that the time horizon is much longer since the shareholders in private equity and venture capital companies lock their capital during a longer period of time whereas the shareholder of fund companies can sell their invested capital over the night.

Other reasons why these investment companies have greater possibilities to be active owners is due to the fact that the investment have strategic goals that should be achieved such as changing the capital structure, create synergies etc. which requires the investor to be active and influence the management to a greater deal than for fund companies. Hedlund argues that fund companies are more passive owner that might try to influence their holding companies by voting on the annual general meeting but that it is seldom that fund managers have direct contact with the management. It should be noted that this article is from 1985 which is the reasons why I chose to include it since it is a proof that the fund companies have really changed their way of working and nowadays most fund companies are very active as owners, for example the UK based fund company Hermes is as a good example of active ownership in a fund company. However the fact that most investment companies have greater possibilities to influence than fund companies remains. Private equity and other investors that buy to get control in a company have great possibilities to influence the management and strategic level of their holding company. But whether or not they use this possibility to influence their holding companies to work with social, environmental and business ethics issues is still to be answered.

3.4.2 Exit, voice or loyalty

Albert O. Hirschman is an famous researcher that has made a basic distinction between different ways of reacting for a member (employee, customer, shareholder etc) to react when a business or an organization is not behaving as the member wants it to behave. The first alternative is to exit meaning that the member quit its involvement with the organization, the other option is for the members or customers to agitate and use influence to bring about change and the third alternative is to remain loyal and accept the dissatisfaction.

Hedlund has used Hirschman as a starting point and made a classification between different owner types and owner behavior. His research only includes Swedish insurance companies and fund companies and not the

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92 Heel, Joachim, Kehoe, Conor Why some private equity firms do better than others. , McKinsey Quarterly, No 1( 2005)  
94 Albert O Hirschman Exit, Voice, and loyalty- responses to decline in firms, organizations and states Harvard University Press 1970
type of investment companies that this study will focus on. I will however include this article since it shows how some investors look upon their roles as owners. Hedlund categorizes owner behavior in three different parts; exit, voice and loyalty.  

**Exit:** This implies that the owner sells or buys shares depending on satisfaction with the company’s behavior.

**Voice:** This implies that the owner actively tries to influence the management and behavior of the firm. Depending on the kind of owner it can do this by participating on the annual general meeting, take a seat on the board of directors, contact top management or cooperate with other owners in order to influence the management of the firm.

**Loyalty:** A shareholder/owner that is loyal or sentimental is the owner that doesn’t really do anything to influence the management of the firm but can be said to be a silent and passive owner.

Owners of family owned businesses are more or less forced to use their voice in order to change the management since an exit is not an option. When looking at owners such as financial institutions such as investment companies and fund companies can be inclined to use both voice and exit depending on their goals. Hedlund argues that usually the management can take over the voice function but the owners are the only ones that posses the power of the exit function.

Hellman goes further and discusses the owner behavior of institutional investors and argues that these investors are not tending to use voice as a mean to influence the company but rather use exit if this is necessary. There is however some situations where it is better for the institutional investor to use its voice instead of selling its shares. If the costs of not raising the voice are higher than to do so the investor should consider raising its voice and take action, especially since this can be a way for the investors to increase its legitimacy in society at large.

Research also shows that investors perceive that they have a three dimensional responsibility. The responsibility towards their own owners, a responsibility towards their holding companies and finally some investors perceive a responsibility for the function of the financial markets. The latter responsibility is to some extent coherent with the socially responsible investor since this show that the investors feel responsible to communicate what is accepted and unaccepted from a corporate governance perspective and that the investors have an interest in defining and communicating the norms and rules of the financial market.

The result of Bengtsson’s study show that the smaller owners seem to use exit more frequently and that bigger investors applied more of an indirect governing through owner’s policies where different aspects that the investors demand from the company are defined. Results also show that the investor seems to care and govern the macro rather than the micro level of the company. Other studies within this field shows that

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97 Ibid.
owners has changed their behavior during the last decades and are now increasing emphasis on financial aspects when governing the firms.  

Other studies show that owners that normally have a more dominant role such as family owners and financial groups use different strategies when practicing their ownership. The financial groups normally use expressed ownership strategies and long term interest in the industrial development and historically these owners have heavily influenced the strategies of the company that they own. How the owners work with the management depends on a number of rationalities such as economic rationality, trust and good relations. The most common ideology and owner strategy in financial groups are characterized by having a hard industrial and financial focus and softer values has often been neglected. The owner’s position on the board is often highly respected by the other board members and usually the owner representative is more important than for instance the labor representative or the independent director.

3.4.3 Active ownership and motivations for the investor to engage in CSR

I have in the previous section tried to give examples and present theories on how investors work as active owners with issues such as financial revenues and strategic management. Research shows that active ownership does bring value to the acquired business and hence also the investor. If active ownership is proven to be a successful way for the investors to work with the holding company and CSR is proven to increase value of business there should be incentives for investors to work with CSR in their ownership strategies.

In the following part I will put together the previously theories used in order to create a framework that explains how and why investors could and should engage in CSR as active owners. Corporate social responsibility has over and over again proven to be a tool for reducing non financial risks, create higher shareholder value, encourage innovation that will lead to long term value creation and hence affect the performance of the investors’ portfolios.

3.4.3.1 Financial performance proven to be higher in sustainable companies

Most of the empirical evidence indicates that there are no negative impacts for companies that work actively with CSR and hence there are no reasons why investors shouldn’t by being active owners engage in these issues. Dow Jones Sustainability Index and FTSE4Good are two indexes that rate the worlds best companies measured on CSR performance. Some Swedish companies that were rated in the DJSI in January 2007 were H&M, Gambro, Skanska, SKF, Volvo and Ericsson. When for instance comparing FTSE4Good Global Index with FTSE All shares Index the annual performance increase of the FTSE4Good Global Index was 18 % higher than the FTSE All-Share Index during 2006.

Research also shows that portfolios of companies with high corporate governance standards outperform companies without these standards and many investors value well-governed companies significantly higher.

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104 Becoming a better citizen The value of corporate social responsibility Strategic Direction., Vol. No. 7 (2005)
than other companies.\textsuperscript{107} Other studies connect the better reputation due to CSR which lead to a significant positive impact on the stock performance.\textsuperscript{108}

It is of course hard to say that the higher performance from companies rated in the FTSE4Good and DJSI is because of the CSR engagements of these companies. The companies rated in these indexes are global multinational smart businesses that are known to be successful and proactive in many areas. I argue that the credit for the performance of these companies should not only be given to the CSR issues but rather it should be seen as a sign that serious and successful companies are the ones that take the CSR issues sincerely and therefore these are also the companies that seem to perform best.

3.4.3.2 \textbf{Reducing non financial risks and the value of extra financial data}

Another reason for the investor to be an active owner and engage in CSR issues is the fact that so called non financial risks can be reduced. There are a number of business scandals such as Enron, Shell Brent Spar, Parmalat that clearly shows that the non financial risks can harm a company tremendously and hence also the investors of the company. Non financial risks are defined as social, environmental and governance risks that a company poses on the society. Empirical evidence and international rating bodies indicate that these is issues are important for the financial performance of the firm and hence issues that also is important for the investor. Even if the investor is not interested to be a socially responsible investor it can make business sense to engage in these issues since they in many cases affect the companies’ value drivers such as the market value, financial performance, reputation, customer satisfaction etc.\textsuperscript{109}

Jeroen Derwall and Patrick Verwijmeren has made a study called “CSR and the cost of equity capital” that provides results indicating that the financial market are paying attention to the companies work with CSR which is affecting the companies cost of equity capital. Findings indicate that firms that ranked high on issues such as environment, governance and product quality on CSR indexes had a lower cost of equity capital than companies that were ranked low. Social issues such as human rights, employee satisfaction and relations and community involvement on the other hand had a positive relation to the cost of equity capital.\textsuperscript{110}

3.4.3.3 \textbf{CSR can lead to innovation and competitive advantage}

In order for a company to get return on their CSR engagement it the company needs to realize that CSR is a new way to conduct business rather than just “business as usual” plus adding a voluntary project in a developing country. Smart and innovative companies find business opportunities that create economic value to the business and contribute to a sustainable development. This can be interesting for an investor since their primary goal is to create economic value and if CSR can create competitive advantage and lead to innovation CSR will benefit the investor and hence the investor have incentives to promote and increased CSR engagement in the company.\textsuperscript{111}


\textsuperscript{108} Smith \textit{Making the case for the competitive advantage of corporate social responsibility} Business Strategy Series Vol. 8 No. 3 (2007)

\textsuperscript{109} Plesner & Lerberg Jörgenssen \textit{Reporting for duty-managing non financial risks} The Copenhagen center, www.exchange-handbook.co.uk/pdf/FocusDec08.pdf 2007-04-16 17:36

\textsuperscript{110} Sustainable investment research platform http://www.sirp.se/home.asp?sid=931&mid=2&pageId=29569 2007-05-11 17:30

\textsuperscript{111} Smith \textit{Making the case for the competitive advantage of corporate social responsibility} Business Strategy Series Vol. 8 No. 3 (2007)
For a company to work with CSR thoroughly it is important to deeply understand and study the forces that shape the future of its industry. Deep knowledge about the industry will give the company a competitive advantage and a possibility to respond to new demands in the market and hence have the possibility to be innovative. 112

All of the above mentioned motivations can help to increase the profit and hence give higher economic value for the investor. However, the main message from many international organizations, researcher and professionals is that in order for CSR to become an even stronger tool for value creation it is crucial that the financial market starts to value CSR in monetary terms and then the wheel will start spinning and there will be great incentives for business to engage even more in sustainability issues.

3.5 Summary of the theories

I have in the previous sections explained the idea of Social Responsible Investments that are becoming increasingly important for many institutional investors such as fund companies, insurance companies and banks but also to some extent within the more traditional investment industry. SRI can be divided into two different parts, the screening and the engagement where screening is the process before an investment and the engagement is the work carried out by the investor during the ownership of a company.

After explaining the SRI I continued to the highly debated concept of Corporate Social Responsibility that can not be separated from SRI since they are highly interconnected. When an investor that is devoted to SRI evaluates a company the CSR issues are the ones that are evaluated and when working and engaging in the holding company it is the CSR work that is in focus and hence these two issues are indeed connected. CSR is all about how a company works with taking responsibility for its social, environmental and economical impacts of its business actions and the trend of today is to integrate CSR into the core strategy. Evidence shows that CSR can lead to competitive advantage, increased brand value, customer satisfaction, employee loyalty, risk minimizing and innovation, which are all factors that can have positive impacts on the business.

In the last part of the theory, chapter 3.3 Active ownership I explained how investors work as active owners in more conventional issues such as strategy and financial performance. This part concludes that active ownership has proven to be an efficient way for investors to create value in their holding companies. I end this part with explaining why investors should engage in active ownership with focus on CSR issues and the main ideas are that; financial performance proves to be higher in companies that work actively with CSR, non financial risks can be reduced which helps investors avoid negative and costly surprises, and finally CSR can lead to innovation and competitive advantage and hence economic value creation for the company and the investor.

The following model is to be seen as a model that shows how the theories are connected rather than a tool that will be strictly followed in the analysis of the empirical data. The reason for this is that I believe that an analytical tool might be constraining rather than beneficial for the results of this study. The model is a very unitary and simple way of looking at the reality and how investors can influence its holding companies to work more with CSR. There are of course other ways than through active ownership and engagement that the investors can influence the holding companies but since this is what I mainly will study I have chosen to use this model as a summary of the theories.

112 Ibid.
The model primary shows how the investment company/fund company can work with SRI by engaging as active owners in their holding companies. This engagement might then create incentives for the holding companies to increase their work with corporate social responsibility issues which in the long term will contribute to a sustainable development; the last step of the model is based on the same idea as in figure 1. The arrows are to be regarded as the influence that in the end will lead to the last step; sustainable development. The figures are all except the two last ones (CSR and sustainable development) chosen for esthetical reasons whereas CSR and sustainable development are chosen since the triangle represents the basic idea of these concepts.
Figure 2: Model of the theories

Investment Company/fund Company

Social Responsible Investment through active ownership

Holding Company

CSR

Sustainable Development
4 PRACTICAL RESEARCH METHOD

In this chapter I describe how I have conducted my study and I also explain the choice of research method, the interviews and access and collection of empirical data. Finally I end this chapter by presenting criticism to the primary sources.

4.1 Choice of data collection method

When conducting scientific research the researcher can choose to make either a quantitative or a qualitative data collection method. In order to reach the best understanding and results it is crucial that the researcher carefully choose a method that is most appropriate for the chosen subject. The choice of research method is also closely connected to the scientific approach and epistemology, the qualitative research method is connected to the inductive scientific approach and the hermeneutic epistemology whereas the quantitative method is connected to the deductive scientific approach and the positivistic epistemology.

Qualitative research is characterized by a small sample of respondents whereas the quantitative method is conducted with a significant larger sample. When conducting a quantitative research the researcher will be remote from the primary source and the most widespread quantitative method is the survey-research. The goal for the researcher is to collect data that is highly confirmable from where general conclusions can be drawn. On the other hand, the qualitative method explains unique characteristics and the analysis is focused on deep understanding and explaining the distinctiveness of the subject.

In qualitative research the most common is to collect empirical data by interviews that provide the researcher with data that is highly subjective and rich in information. Since the research is based on very few samples the qualitative method is often criticized by resulting in conclusions that are low in validity and practical applicability.

The purpose of this study is to create an understanding of if/how investors work with social responsible investments by engaging in corporate social responsibility issues, mainly during the ownership of a company. Further on the study aims to create an understanding for the attitudes towards corporate social responsibility and social responsible investments from the investor and the consequences that the investors recognize if the holding companies are working actively with CSR issues. So, to be able to answer the problem statement and fulfill the purpose of my study I needed to get a deep understanding of how the investors work with CSR issues. To get deep information the most appropriate option was to conduct interviews with a number of investors with focus on receiving broad information from each and one of the respondents.

Due to the purpose of the study the required data was not information that could be transferred into numbers and statistics but rather deep information that could help me to create an understanding for the

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113 Widerberg, K., Kvalitativ forskning i praktiken 2002. 65  
116 Ibid., 54.  
subject. The qualitative method allowed me to collect a great amount of deep information regarding the investors attitudes and contribution to make their holding companies work with CSR issues. I made five semi structured interviews with different kind of investment companies that invests in as private equity, public equity and finally two fund companies.

4.2 Choice of respondents

My starting point when choosing which companies to include in the study was to find respondents that worked with CSR/SRI issues and active ownership in different way and to different degrees. By looking at the companies’ homepages I got an idea how these issues were prioritized in the company. I finally chose to conduct interviews with five respondents from different kind of investment companies and fund companies. This choice of respondents enabled me to get a broad picture of how different investors work with these issues as active owners and their attitudes towards corporate social responsibility and social responsible investments. Some of the investments companies that I primarily wanted to include in my research have not been able to partake due to lack of time, confidentiality and principle reasons.

The investors I have chosen are the following, Ratos, Banco, Melker Schörling, Robur and EQT. Ratos is a private equity company and since they have as a goal to work as active and responsible owners and I decided that they were interesting to include. EQT was chosen since it is one of the leading investment companies within the field of private equity and have operations in Northern Europe and China. The information on EQT’s webpage does not indicate that they work as social responsible investors by engaging in CSR issues. This fact makes it interesting to include EQT since they are the only one of the respondents without a word of CSR or responsible ownership on their webpage. It is also interesting to include EQT since they invest in companies in China where there are different conditions regarding for instance human rights issues. Melker Schörling AB was chosen since it is a smaller investment company that regarding to the information on the webpage have recognized their responsibility and developed a CSR policy that regulates their actions.

Banco was chosen since it is one of the most famous Swedish fund companies when it comes to active ownership and SRI and hence it is interesting to understand how they work with these issues and why they do it. Robur was chosen since they are one of Sweden’s biggest fund companies and also work actively with SRI but in a different way than Banco. The idea of comparing fund companies with more traditional investors such as private equity companies might be seen as comparing apples with pears since there are many differences between these companies and their way of investing. However I believe that this is interesting due to the fact that previous research from researchers such as Henningsen and Guyatt indicates that more traditional institutional investors such as Banco and Robur have reached further regarding how they work with these issues but their possibility to influence each company is lower since they own relative small parts in each company. Investors such as private equity companies on the other hand often invest to have control and hence they truly have the possibility to influence their holding companies, but on the other hand they might not be as concerned when it comes to these issues.

When first contacting the respondents I called and explained the purpose of my study and then depending on each organization I was transferred to the right person that would be appropriate to answer my questions. My preference was to interview capital managers or CEO since they are responsible for the investments and active ownership strategies. The interview with Ratos was conducted with the information manager Anna Karin Celsing since she is responsible for making the policies and educating the employees at Ratos in CSR issues. The interview with MSAB was conducted with the CEO Ulrik Svensson since he is
responsible for MSAB investments and strategies and hence the one that were most suitable to describe MSAB active ownership and work with CSR. When interviewing Banco I met Helena Ohlander who is SRI responsible. At EQT I met with Caspar Callerström who is a partner and also board member in some of EQT holding companies and hence very familiar with EQT’s way of working with active ownership and CSR issues. At Robur I met with Anita Lindberg who works as an SRI analyst and hence had the knowledge and experience in order to answer my questions. Before each interview I sent the interview guide to the respondents so that they could prepare as well as create an understanding for the subject of study. I was also clear with asking if the respondents wanted to read through the material which all of them wanted to do in order to ensure that what I had written was coherent with their view. We also discussed if the respondents wished to be anonymous but no one of them demanded this.

4.3 Access and collection of empirical data

Access is concerned with how the researcher is allowed to collect the information needed to fulfill the purpose of the study. In order to obtain the right information it is crucial for the researcher to get in contact with accurate respondents that can provide the researcher with the correct information. Hence the issue of access is important when choosing the respondents. I choose respondents that according to their web pages seemed to work with CSR and active ownership to different degrees and I believe that the respondents at each company were the ones most suitable to answer my questions since they worked with the investments or with SRI/ CSR issues at the company.

All interviews were conducted at the companies’ offices in Stockholm. I have recorded the interviews since this is the best option to be able to recall what was said during the interviews. Only taking notes doesn’t give the researcher the possibility to analyze what was said between the lines and the risk is that you miss out on important information. The interviews with Banco and Robur both lasted around 90 minutes whereas the interviews at EQT and Ratos lasted an hour and the interview at MSAB only 50 minutes. The interviews were overall good and provided me with enough information for the analysis but of course I got much more information from the interviews with Robur and Banco if comparing to MSAB. I also found that some questions were hard to get answers to due to the fact that this subject is pretty new among many investment companies. I noticed that some of the questions were hard for EQT and MSAB to answer since the respondents had a lack of knowledge within the area of subject and I believe that this can lower the empirical findings from these interviews. However I do not believe that the answers would have been different if I had interviewed other respondents at these companies. I also argue that the lack of answers from some of the respondents is interesting since this indicates that the investors are not so aware of the issue which implies that these issues might not be established in the company.

4.4 Interview guide and questions used during the interviews

The theoretical framework has been used as a guide when creating the interview guide and the questions. Since I am aiming to create new knowledge I have not been locked up by trying to confirm the theories used in the theoretical framework but they have rather been used as a starting point to approach the empirical reality.

120 Johansson Lindfors Att utveckla kunskap, om metodologiska och andra vägval vid samhällsvetenskaplig kunskapsbildning, 1993, 135
The interview guide is divided into five different areas; Background and the company strategy, work with CSR issues by the company, work with CSR in their holding companies, attitudes towards CSR and business opportunities, active ownership and engagement in CSR issues. The interview method used was the semi structured interview meaning that the guide will function as a help during the interview rather than a manual that needs to be strictly followed. This kind of method allows me to get closer to the respondents and understand the respondents and their attitudes to the subject.\textsuperscript{121} Since I need to understand the investors view of these issues and the reasons for their attitudes it is important to give space for their own thoughts and reflections. I still needed to get answers to some certain questions and therefore the semi structured guide was a natural choice. I am aware that the section, work with CSR issues by the company, is not a part of my main purpose. However I believe that in order to understand how serious the investor work with these issues in their holding companies it is crucial to investigate whether they work with theses issues themselves since this tells a lot about the investors’ way of looking at CSR issues.\textsuperscript{122}

I am also aware of the fact that the interview guide is very long and contains many questions but my experience is that I will get answers to the questions without having to ask every single question. The interview guide has functioned rather as a help during the conversation rather than something that have restricted the interview.

### 4.5 Criticism of primary sources

Since this is a rather new topic for the investment companies as well as a sensitive subject it is impossible to check if the respondents’ answers were honest and consistent with reality. There is of course a chance that the respondents have an interest in making themselves seem like they work with these issues more than they actually do. However, due to the newness of the subject it seems like some of the respondents have not yet realized that they “should” be working with these issues and therefore they have been very honest. In order to increase the chances of finding out the truth I have used questions that are not yes or no but rather explanatory which demands the respondents to explain and give examples. Of course one option to check the honesty of the answers would have been to interview their holdings companies in order to get their opinion about their owners’ engagement in these issues. However I choose not to do so since this would have required a lot of time. To investigate how the holding companies perceive their owners to engage and care for these issues would indeed be interesting for future research. It is also important to note that some of the respondents could not answer all of the questions since their reality was to far away from what I was studying. I argue that this is however an interesting answer anyway since it shows the lack of awareness of these issues by the investors. I believe that the respondents that I interviewed were the most appropriate ones since the either were responsible for SRI/CSR issues or highly connected to the core investment process of the company and hence also aware of how the company worked with these issues in their investments.

### 4.6 Analysis of the empirical data

Since my epistemological approach is hermeneutic it is important that I analyze and interpret the collected empirical data in a way that fits this epistemology. After conducting the interviews I directly started to listen to the recorded interviews since I believe that this enabled me to remember more from the respondents and his/her reactions during the interview. I transcribed all interviews in detail since this would

\textsuperscript{121} Bryman Företagsökonomiska forskningsmetoder, 2005, 363

\textsuperscript{122} Ibid
enable me to sort out what was important and systematize the great amount of collected data. When listening to the recorded material I tried to emphasize on how the respondent answered and the inherent meaning of the answer in order to understand the reality of the respondents and their attitudes towards the subject of issue.

The analysis will be divided into three different areas and will not follow the exact same order as the theoretical framework or the model presented in the end of the theoretical summary. Instead I will use the same headings as in the empirical chapter and compare the empirical findings to appropriate theories which I believe will lead to the most interesting results and conclusions. In a study following the golden middle road the researcher is not aiming to prove theories but rather use them as a framework when approaching the empirical reality. I believe that by focusing on the empirical data and compare with the theories that are appropriate will enable me to be innovative and create a new understanding in the issues where the current theories are not yet developed. I will of course use the theories as a framework when interpreting the empirical findings but I will not follow the exact same headings in the analysis as in the theories. I believe that doing so would force me to find data that are appropriate for each heading which is not worth striving for since I believe that it will lower the quality of the analysis.

In the analysis I will discuss and clearly show my own ideas since the researcher’s thoughts and opinions should be a central part of a hermeneutical research using the golden middle road as point of departure. I will motivate my ideas with the theories as a base when interpreting the empirical data. The results of this study will be influenced by my opinions and hence I believe that it is important to show myself for the reader through the whole analysis and interpreting of the empirical data. This will enable the reader to understand how my opinions are reflected in the final results and conclusion of this study.
In this chapter I present the empirical data collected from the interviews. I have chosen to present each of the companies separately in order to show the characteristic of the different investors. I will start by presenting Banco, followed by Robur, Ratos, EQT and finally MSAB. In order to give a brief introduction to the companies I introduce them in a table showing some basic information about the companies.

<table>
<thead>
<tr>
<th>Investor</th>
<th>Banco</th>
<th>Robur</th>
<th>Ratos</th>
<th>EQT</th>
<th>MSAB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent/position</td>
<td>Helena Ohlander</td>
<td>Anita Lindberg</td>
<td>Anna-Karin Celsing, Head of Information</td>
<td>Caspar Callerström</td>
<td>Ulrik Svensson</td>
</tr>
<tr>
<td>Invested capital SEK</td>
<td>17 Billion</td>
<td>350 Billion</td>
<td>35 Billion</td>
<td>100 Billion</td>
<td>14,2 Billion</td>
</tr>
<tr>
<td>Type of investment</td>
<td>Private and public companies, SRI</td>
<td>Public companies</td>
<td>Private equity</td>
<td>Private equity</td>
<td>Public companies</td>
</tr>
<tr>
<td>Number of holding companies</td>
<td>150</td>
<td>90</td>
<td>18</td>
<td>50</td>
<td>7</td>
</tr>
</tbody>
</table>

The following information is based on the respondents’ answers from the interviews. I have also used some reports and data from the companies’ web pages which will be quoted separately in the text.

5.1 Banco

Banco is a fund company owned by ABN Amro Sweden and regarded as one of the leading fund company in Sweden when it comes to social responsible investments. Banco has actively worked with SRI since 1993. Banco has a broad spectrum of funds, both SRI funds and mainstream funds. Banco doesn’t focus on any special industry but rather invest in almost all kind of industries. A good investment is according to Banco a company with a strong market position that shows better results than index in an industry with relatively small sector risks.

5.1.1 Direct and indirect work with SRI and CSR issues

Banco argues that they have identified the risks connected to their business actions, both the indirect and the direct risks. The direct risks are the ones posed by Banco as a company itself and the indirect risks are
connected to the companies in which they invest. Banco argues that the direct risks are very low compared to the indirect risks. The direct risk is mostly environmental that derives from the office activities as well as business travels. The direct risks have been shadowed by the indirect risks but in 2006 Banco launched an environmental policy that regulates the company’s direct impact on environment. The policy includes issues such as recycling, purchasing of office material, and travel with train instead of flying. Banco also offers their employees to make a mapping of their private traveling and their CO2 emissions. The environmental policy was communicated at meeting with employees and via the intranet. Banco also devotes one day on the theme climate and environment where the employees are educated by lecturers on the subject.

Banco is a part of the UN PRI which regulates how they work with their indirect impact which was an easy choice since the PRI are so close to the way that Banco works with their investments. ABN Amro was also a part of the group of institutional investors that developed the principles and the former CEO of Banco was responsible for SRI in ABN Amro.

Banco has principles for their investments and work with these issues indirect since it is an important tool for developing their ownership responsibilities. The positives effects for working with these issues is employee satisfaction and many new recruited employees seem to value these issues as a important factor when choosing to apply for a position at Banco. Other positive effects that Banco perceives that the shareholders invest in Banco funds since they feel that by doing so they take are taking responsibility.

The SRI issues in Banco are taken care of by a special SRI department consisting of two persons but Banco argues that these issues are discussed on top management level and in the board. The SRI department works actively with the companies that are a part of Banco’s SRI funds and regularly with the non SRI funds.

However Banco have done a deep screening of all their funds but the difference is that the “basic” funds are not followed up with the same intensity as the SRI funds. However there is a process checking these issues on all companies every second year and thereby Banco argues that they are working with these issues in all their investments. Banco work with influencing their holding companies by active dialogue, meeting with the management, learning from other companies, media exposure and usually Banco experience fast and strong responses by the companies since they argue that most companies want to be good and work actively with these issues.

Before making an investment Banco makes a screening, both a so called passive screening eliminating certain companies such as tobacco, alcohol, weapon, and pornography. Banco use an external firm when doing their analysis and screening, if Banco feels that the information provided by this firm is not sufficient Banco search information from the webpage, NGO’s and contact with the companies. However Banco focuses on being active and influences the companies to work more with CSR issues. If a company is in a “grey zone” but have a clear willingness to change it is possible to make the investment but Banco intensifies their dialogues with these companies. Banco doesn’t invest in a company with lack of awareness of their risks and with no willingness to change, even if it would be possible for Banco to influence the company to change. Instead the companies need to show willingness to change and then Banco will reconsider its investment.

5.1.2 **Attitudes towards Social Responsible Investment and Corporate Social Responsibility**

Banco argues that the financial market has a big responsibility since it is responsible for valuing capital which implies a responsibility to be educated in issues such as CSR. Banco believes that when investors value companies it should be done by taking into consideration a number of international principles such as the ILO, UN Global Compact, and Equator Principles etc.

“There are so many principles for the financial sector and investors have the responsibility to be aware of these issues and know where money is invested and what actions their investments are supporting, then it is up to each company to make it own choice but there is a need to understand what effects the investment will have on society.”

The positive impacts of working with CSR are that it creates a better business culture and of course also a better world in the long term. Banco believes that the financial market has huge power and possibility to influence. The challenges lay in making investors aware of SRI/CSR and to raise the knowledge and understanding of how they can contribute to make a difference. Banco believes it is important for companies to start their CSR work by identifying risks and then communicate this to the employees. When it comes to building the brand around CSR Banco replies: “Do the products build the brand or does the brand build the products”? Meaning that maybe it is better if sustainable products build the brand than that the company builds up a brand and then changes the products since this can be seen as starting in the wrong end.

Banco doesn’t see a contradiction between short termism and SRI/CSR since the impact of i.e. ignoring the environment is already visible and therefore it is an issue of today rather than of tomorrow. Focus is currently being moved from the long term to the short term due to mega risks such as climate change which is a clear challenge that we are facing today and not something that we might be facing tomorrow. Banco is not yet looking at climate change as risk before investing but believe that this will be one major task in the future since the oil price definitively will affect the companies and hence also Banco and its shareholders. Banco exemplifies with giving an example of the car industry of today. Due to the increased tax on CO2 emission in Europe it is clear that companies with different product lines will be affected differently. In order for these issues to become main stream there is a need for portfolio managers to see the measurable return on the CSR issues.

The main purpose of Banco is of course to create a return to their shareholders but without violating the interest of stakeholders. It is important to ensure that the companies take responsibility for their actions and Banco does not advocate charity. Working with CSR and SRI should give something back to Banco in the long run and make business sense. Banco believes that companies have a lot of opportunities to influence society in a positive way that benefits both the companies and the society where they operate and clearly believe that CSR increases a company’s value. One example of how Banco work with innovation and sustainability is the recent launch of carbon dioxide neutral funds.

5.1.3 **Active ownership and engagement in CSR issues**

Banco has an ownership policy on the webpage where their overall work with SRI issues is briefly explained but the main work regarding SRI is explained in a special policy focused on Banco’ SRI funds.\(^{124}\)

After investing Banco works actively and meets with the management to follow up on CSR issues. Some companies that run greater risks due to i.e. production abroad is more prioritized and hence followed up more regular than companies in other industries with significant lower risks and impacts. For instance Banco doesn’t exclude companies that are operating in repressive regimes countries since they believe that foreign investments are beneficial for countries as long as it is done in a sustainable way. Focus is rather put on how the companies are handling their social, environmental and business ethics risks. Banco experience is however that the Swedish companies with operations abroad are relatively good at handling these risks and take responsibility.

Banco believes that CSR can open up for new business opportunities and when meeting with companies Banco looks at risks and opportunities in order to increase focus on CSR as a business opportunity. Banco’s role is to inform the companies of the importance of working with these issues. It is not yet that all companies consider CSR to be a possibility, most companies know about the risks but when asking about the possibilities many companies are more doubtful. Banco doesn’t believe that they as owners have the possibility to come with an idea about CSR and innovation since the companies know their own strategies better. Banco however can share knowledge and inform the companies about certain trends that can be useful for the companies to know about, and then it is up to the companies to do something about it.

The financial market have a great responsibility to start valuing CSR in pure financial terms and if looking at trends in Europe there are certain stockbrokers, Citigroup, that rates companies based on their work with CSR which shows the core idea of CSR, that it does affect the rating of the company.

Banco seldom feels that the companies neglect their ideas which they believe is due to the fact that they as owners have such a long tradition with its holding companies and these issues have been discussed since 2000. Banco doesn’t work in the boards but rather use meeting and dialogue with the companies. Even if they work as active owners Banco does not recognize that they are in position to influence the companies’ strategies but rather give the companies tools for handling CSR risks and opportunities.

Since Banco work in so many different industries they learn how CSR issues are handled in different companies which are knowledge that they sometimes transfer to other companies. Banco also holds workshops about CSR issues where they invite companies to discuss theses issues and share experiences. The value to work as active owners is that it truly develops the companies and Banco can see that their influence and talking to the management about the importance of these issues has pushed many companies to raise CSR to the top management level in the company.

Even if companies work actively with these issues Banco argues that developing CSR is never finished since these companies continue to face new risks and opportunities through product development, new strategies, new market etc and hence there will always be new challenges. As a fund company and owners Banco perceive its role as to demand and trigger the companies to meet all the new challenges and create opportunities from these challenges.

There has been occasions where Banco has excluded a company which is the last action and nothing that they are happy to do. Before excluding a company there is always a long dialogue with the company and what necessary improvements Banco require. Banco’s strategy is to influence the company to work proactive and not reactive since they want to avoid the negative situations from occurring at all. Therefore Banco keeps
regular dialogues with its holding companies which are occasions that almost always are appreciated by both Banco and the company.

When it comes to the challenges that the world faces today such as climate change, poverty, environmental issues, lack of water and food etc. Banco argues that they as investors have a great responsibility to meet these challenges and that there are business opportunities to be found. Banco believes that it is the business world that will have the ability to meet these challenges are companies with a sustainable approach. Microfinance loans have been handled by Banco’s owner ABN Amro and there are no plans for Banco to launch a special micro finance fund in the near future.

5.2 Robur

Robur is the second largest owner in Sweden after the government and their invested capital is approximately 350 Billion SEK. When it comes to SRI funds Robur is the leading fund company on the market with 9 billion is invested in social responsible companies. Robur works as active owners and perceive that this enables their funds to perform better than index. Robur has specialized on Swedish companies and approximately 50% of the capital is invested in Swedish companies. Due to Robur’s size they invest in all kinds of industries and sizes but only in Swedish public companies.\(^{125}\)

5.2.1 Direct work with CSR and indirect work with SRI

Robur is a part of Swedbank’s CSR work and work according to ISO 140001 as well as ethical responsibility focused on providing good services to all customers. Robur works with having a fair marketing and being transparent to all its stakeholders. During 2007 Robur Ethica will make a report showing what holding companies they have met with, what issues that have been discussed in order to be transparent. They do however not have any special occasions where shareholders can ask questions regarding SRI issues but try to be as open as possible and answer questions.

Working with SRI has been a part of Robur for 25 years which first was demanded by large owners such as Svenska kyrkan since they didn’t want to invest in certain industries. SRI is divided into two parts at Robur where the first part is demands from large owners. Robur perceive that their way of working with SRI many times reaches further than what these owners have expected. This helps to raise awareness among their shareholders. The other part of their SRI work is the engagement in their holding companies and ensure that the companies take a moral responsibility, handle their CSR risks and opportunities which is also integrated in Robur’s overall ownership policy. The difference with the SRI funds and the normal funds is that the companies that are included in the SRI funds are screened before the investment and live up to a number of criteria whereas the normal funds do not live up to these criteria but in order to influence these companies to work more with CSR issues Robur works through their ownership policy.

Robur divides companies in three different levels, the good examples that are included in the Ethica funds, the companies that don’t work with these issues at all and the ones that have some work to be done in order to be good examples but where there is a willingness to change and start working more actively with CSR. Robur also invest in companies where there is still work to be done and doing so with requirements that the companies need to change during a period of time. Robur believes that doing so will help the companies to

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develop their CSR strategies faster than if not invested in these companies. The “good examples” are rewarded on the homepage and get a lot of positive attention which Robur sees as a good way to inspire other companies to work more with these issues.

Robur’s screening is based on environmental reports and CSR reports from the companies but the main part of the analysis of CSR risks is based on annual reports. The annual reports enable Robur to understand the company and its operations, processes, services & products. Robur also use reports from Swedwatch but doing so by asking the company how they view the results from the report and how the company handles the situation. Robur Ethica also invests abroad but the engagement and screening process differs a lot from the investments done in Swedish companies. Foreign investment is not handled by Robur Ethicas analysts and therefore they can not influence the companies work with CSR.

All companies in the Ethica funds have work with at least a minimum level of CSR, which is some kind of environmental work, employee work and business ethics. Robur have identified specific areas of attention for all companies which they demand the companies to work actively with. Robur has a dialogue with its companies once a year and if the companies are in extra risk intensive industries these companies will be prioritized and Robur will work extra with the management. Robur do not have any special time frame for companies to make a change in their CSR work but rather it depends on the companies and their willingness to change.

Robur’s reason for not investing all 350 billion with the same requirements as in the Ethica funds is a lack of mandate from their shareholders. Another reason is that there are not enough good companies on the market for Robur to invest all its capitals. Robur also sees a value from investing in companies that are not fully engaged in CSR issues since they want to support all kinds of companies and be able to influence the companies to work more with CSR issues and by doing so Robur believes that they can influence these companies to work more with CSR issues.

5.2.2 **Attitudes to CSR and SRI**

Robur do not agree that business only responsibility is to create profit. Companies depend upon all their stakeholders and hence they need to consider all stakeholders interest. The view of companies’ responsibility has changed during the last years. Robur do not think that they have a bigger responsibility than the management of the firm since they only own a small part of the companies and hence their responsibility need to be equivalent to their possibility to influence.

SRI is not discussed very actively at the top management of Robur since SRI is already highly integrated in the organization. The parts of the Robur working actively with SRI are mainly the market department, the department responsible for Robur’s ownership issues and the SRI department.

Robur has not yet signed the UN PRI since they want to make sure that they live up to the criteria before signing. However, Robur believe that this will be a decision for the near future since they now are ready.

Robur work with SRI since it is a way to gain market share among certain investors as well as it is a way to create a demand for SRI funds among their shareholders. It is also a way for Robur to work with customer satisfaction since many of their shareholders are institutions where these issues are very important. Robur
also believe that CSR is important for the long term competitive advantage and a smart way for them to handle non financial risks.

Robur experience that companies listen much to their investors and believe that investors have the ability to make companies increase their work with CSR issues. Some companies might not believe that the owners want them to work with these issues and therefore when the owners show the opposite it becomes a strong incentive for the management to increase its CSR work.

CSR can open up for new business opportunities and companies that work with CSR is often innovative and changeable, have ability to understand its surrounding and develop strategies to respond to social and environmental issues. Robur argues that their role is to contribute with knowledge and information about how far a certain industry has reached with CSR work and thereby transfer knowledge between companies. Robur argues that they are seldom neglected by companies but that the development of how far some industries are developed in their CSR work differs a lot. Robur also believe that their dialogue with the companies can help to increase the legitimacy of the CSR department in the company and raise CSR issues to a higher level.

By having a serious SRI department and communicate what companies are doing within this field will create value for companies working with CSR. It is important to raise the awareness and to show that the Robur Ethica funds are performing well. The Ethica funds are currently some of Robur’s best performing Sweden funds on the market. Robur believes that CSR should be fully integrated in the company and strategic CSR questions should be discussed at top management level but that this might not always be the case since it in some companies still is separated from the core business.

When engaging in CSR issues in their holding companies and especially when there is a situation that might affect the overall holding of the company the SRI department works together with the department responsible for ownership issues in order to act as Robur and not only Robur Ethica. Robur prefer not to exclude companies but rather focus on influencing and push the companies to change. When acting as owners they are usually very discrete since they believe that this is the best way to achieve changes in the companies. Robur prefer to investigate what has happened and understand the situation rather than making a fast decision and exclude a company. If Robur perceive that the risks can be handled by the company they keep a dialogue with the company and if it seems like the risk can not be handled efficiently there is a chance that the company will be excluded from Robur Ethica.

5.2.3 Active ownership and engagement in CSR

In the ownership policy of Robur there is a paragraph on how CSR issues should be considered and how the board should work with these issues.126 This policy is applied for all Robur’s investments and not only the ones included in the Ethica fund and hence Robur is trying to influence all their holding companies. However the companies included in Robur Ethica is the ones were Robur work most actively with CSR issues as owners.

The value created can help to raise CSR to a higher level which Robur believes to be one of the keys to action. Robur seldom feel that their ideas and demands are neglected since all companies have realized that

these issues are important and Robur perceive that the management listens to them since they are an important owner.

Even if there is still not a clear measurable connection between CSR and profitability Robur argues that it might be in the future and hence it is their moral responsibility to work with these issues in order to contribute to a sustainable development. Robur have seen difficulties in reaching the mainstream analyst with their CSR analysis on companies since the long term risks and opportunities can sometimes be hard to make the mainstream analyst understand. However the fact that Robur Ethica fund shown better results than other funds has made it easier and more legitimate to promote these issues.

Robur do not believe that they will for instance start up a microfinance fund but find regard this as interesting topic. The problem with environmental technique is that most of the companies are private and hence not possible for Robur to invest in. Robur believes that their role is to reward and appreciate companies that work with these issues rather than actively do something about issues such as climate change or poverty reduction etc. In some countries where companies operate it is not enough to just pay taxes but do something more to ensure that the employees have a good life which Robur argues should be done through community involvement. Robur is a bit skeptical to climate neutral funds and argues that it is better to start improve and really reduce the emissions and not just compensate. Robur works after an energy principle handling which kind of energy to choose and what climate actions that are the best etc when making a screening which is a principle that will be even more important in future screening processes.

5.3 Ratos
Ratos AB is a private equity company noted on the OMX large cap with 18 holding companies and a yearly turnover on 35 Billion SEK. Ratos AB invests in Nordic based medium sized to large companies but many of the companies have international activities and in total Ratos employs 21000 persons all over the world. Some of the holding companies are Anticimex, Arcus Norway, and Haglöfs etc.127 Ratos usually invest in companies that are expanding, changes in company structure, planned internationalization, and switch of generations and rarely make an investment lower than 150 MSEK. Ratos demands their holding companies to have a yearly return on at least 20 % and during 2006 the overall return was 28 %. Ratos never works with a company more than up to 10 years but the time between entry and exit differs a lot from the different companies. Every year Ratos makes a profound analysis of each company and if the companies show good potential to create at least 20 % return on the investment per year Ratos normally keeps the company. However there is always a strategy for alternative exits in order to not depend on simply an entry on the stock market. Ratos are industry generalists and invest in all kind of companies in the Nordic region with their core philosophy professional, active and responsible. Ratos prefers to call them selves an owner company rather than an investment company since they have such a big influence in their holding companies and therefore this name is more representative for their business idea.

5.3.1 Direct and indirect work with SRI and CSR issues
Ratos argues that their direct activities pose a very low risk on the environment and society and hence no environmental or social risks are identified and neither is there any policies regulating the direct impact of Ratos business activities. However Ratos do work with being an engaged member of society and sponsor projects and organizations such as Save the Children, Stockholms Stadsmission, St Clara etc, which all are

projects that are focused on helping children and young adults to get a better life and opportunities for their future.

Ratos have also developed a social policy regulating the impact that their holding companies pose on society. Ratos have since 2004 used a so-called Social Code of Conduct that regulates these issues in all the investments of the company. In this code of conduct, Ratos support the UN Human Rights, UN Children’s Rights, International Labor Organization’s eight conventions and doings so by not investing in companies that violate these international conventions. However, if Ratos believes that their investment can help the company to engage more actively in these issues without taking on too large a risk, they are willing to make an investment. Ratos have not developed an environmental policy regulating the environmental impacts of their holding companies which according to Anna Karin Celsing is due to the fact that Ratos are already considering the environment in everything they do and hence there is no need for a policy.

There is no special SRI or CSR department at Ratos and the developing of policies is done by the chief of information, Anna Karin Celsing. The staff at Ratos has all been educated in social issues such as human rights since it is the responsibility of each employee and not something that should be handled by a single department.

Before making an investment, Ratos make a profound analysis of the company and the social risk the company poses on society and the market where it is active. This kind of analysis depends a lot on what kind of company it is, since some of the portfolio companies have minimal impact on society and hence Ratos argue that there is no need to make a social analysis on these companies. If the company has social impact and risks, Ratos will by using information from NGO’s and consultants specialized on CSR issues make an analysis of the company and the social risks it poses. If the company is not living up to the demands that Ratos have and they anyway decide to buy the company, the investments for fixing the social risks should be included in the investment cost. When looking at the homepage of some companies, such as Haglöfs which is a well-known outdoor fashion company, there is nothing written regarding CSR which makes one wonder how Ratos defines this company and the fact that there is a total lack of understanding for CSR. They also own Arcus which is Norway’s biggest producer of wine and liquor and there is nothing on their homepage regarding the fact that they are selling a product that can have negative impacts on individuals and pose a problem in the Nordic countries. Ratos argues that since Arcus is so highly regulated by the laws, it is not necessary for them to work with CSR.

5.3.2 Attitudes towards Social Responsible Investment and Corporate Social Responsibility

Ratos argue that they have the final responsibility for their holding companies since they are the owners and the ones that build the strategies and provide the capital for the companies. “As owners we are the ones responsible for the companies we own”. Ratos argues that they have a greater responsibility for the companies than the top management since they are the ones that choose the management and the board which in the end makes them responsible. According to Anna Karin Celsing, it is in the company culture of Ratos to be a responsible and active owner which is a culture fostered from the company owners and founders, the Söderberg family.

Ratos do not think that they have a responsibility or possibility to speed up the development of new innovative and sustainable business ideas since this is not in the strategy of Ratos nor their business idea.

Ratos do not see that there is any special value derived from working with CSR issues and are skeptical to if these issues actually increase a company’s market value. When discussing current research showing that these issues have proven to increase values, Ratos argue that there is a big willingness from researchers to
show that CSR have positive impacts on returns and market value and therefore there is a need to be very critical to this kind of research results. Ratos rather argues that companies working actively with CSR issues are well managed companies in all areas and hence it is therefore they show high returns, not due to CSR.

Ratos is familiar with the UN PRI but argues that it is enough for them to follow the UN Human rights and that there are so many guidelines and principles so it is impossible to be engaged in all and neither is Ratos interested in just signing something that wont change their way of working since they argue that they already have a well developed responsible ownership strategy.

Ratos argues that these issues are important since they as a member of the society have a responsibility to follow the laws, regulations and recommendations that exists and it is all about minimizing risks and be a good citizen.

For investment companies to start working more actively with CSR issues Ratos believes that there is a need to see the cost of not working with these issues, a huge economic impact for an investor due to a social risk in a holding company that was ignored. Ratos do not think that they and other investment companies have responsibility to value CSR in pure monetary terms but this is for the end consumer to do, companies that behave well will sell more which will create profits and hence that will set the price of that company.

“Investment companies are not pricing the companies and they do not have the possibilities to pay a premium price for companies working actively with CSR issues, it is out of their control.”

### 5.3.3 Active ownership and engagement in CSR issues

When it comes to active ownership Ratos are active owners since they always own such a big part in the companies which gives them control over the decisions made. Ratos makes the strategies, chooses the management and therefore sometimes the management is replaced since Ratos doesn’t believe that the current management is able to create the yearly minimum return on 20 %. Ratos is always a member of the board and hence involved in important strategic decisions. Ratos argues that it is obvious that there are many values created to work with active ownership since the companies show a yearly return on 20%, which according to Ratos is thanks to them as being so active owners.

After investing Ratos doesn’t demand that all companies develop certain CSR policies but rather look on the actual work being done and how these issues and risks are handled. Ratos doesn’t demand the company to report on these issues to the board. During the ownership Ratos primary role is according to the ownership policy to be active in the board but also to have an ongoing dialogue with the top management of the holding company and help with the strategies and goal formulation, analysis, financial competencies and financial resources. Ratos have a dialogue about CSR when needed but these issues are rather on the risk minimizing level than a central part of the strategies.

In Ratos ownership policy there is a paragraph called Responsible which explains the responsibility of Ratos which is primary to its 35 000 shareholders. Ratos argues that a responsible investor is an investor that acts in a manner that doesn’t harm the holding company during the three phases of the investment, entry, development and exit. In order for Ratos to fulfill these goals it is crucial that the staff has the ability to act responsible and have knowledge of which groups that are affected by Ratos decisions. Ratos stakeholders are primarily other investors, top management, employees and the union and finally the society where the company operates.
5.4 EQT

EQT is a private equity company and its holding companies employ more than 470,962 persons around the world. EQT doesn’t work with any special industries but the investment need to be at least 1.5 billion SEK for it to be an interesting investment. EQT always ensure that they have control which means that they always by at least more than 50% and hence have the ability to make the decisions in the board.

When investing EQT looks especially at the industry and how the industry works and how that specific company works within its industry. Market leading companies in growing industries are usually preferred by EQT. After investing it is important that the investment shows great returns since this is EQT’s main purpose. Other important criteria are that the companies are developed and changes during their ownership and normally EQT keeps a company between 3-5 years but this is depending on each investment.

5.4.1 Direct and indirect work with SRI and CSR issues

EQT direct impact on society and the environment is minimal and hence EQT doesn’t have any policies for its direct impact on society. The impacts and risks that EQT have is rather through its investments. EQT recognize that they have some form of social responsibility due to their size and the number of employees that their holding companies employ but have no policies on how to handle these risks. The reason for not having any policies is due to the fact that EQT invest in so many different sectors and industries and hence they argue that it would be hard to have one policy that fits all. These actions are therefore taken care of on the company level and it is up to each company to decide how to work with CSR issues. EQT argues that CSR issues should be taken care of by the management of each company and hence nothing that EQT is working actively with.

EQT argues that the term SRI and the different criteria and principle that exist in the area is more of “marketing issues” rather than actually something that works in reality and genuine and has therefore decided not to be part of any international principles or developed any policies regulating the CSR issues. However EQT have refused to buy some companies due to the fact that these companies have not been interesting for reasons such as sensitive industry, i.e. tobacco. But EQT argues that just by doing this one time there is noting indicating that they will never in the future invest in tobacco.

EQT do not make a screening on CSR issues before investing but argues that these issues are a part of their due diligence process and hence covered in this process. There is no person responsible for SRI and hence it is not an area that is yet structured or highly developed at EQT. EQT believes that CSR issues will over time be demanded by their investors and thereby they will need to develop policies and guidelines.

5.4.2 Attitudes towards Social Responsible Investment and Corporate Social Responsibility

EQT argues that environmental issues are easier to work with since it is often more directly connected to the company’s production than for instance working conditions that are usually harder since it depends on suppliers etc. The kind of companies that EQT invest in doesn’t pose such a big social risk on society but rather it is environmental issues that pose a more directly a risk.
In order for investment companies to start working even more with these issues EQT argues that it will depend on the shareholders and investors since they are the ones that decide what EQT should prioritize. EQT also describes that when making an investment it is so many things to consider, “To be honest you do what is necessary to make the investment”

EQT feels safe with their investment with regards to these issues. Further on EQT argues that it is important to be able to show that CSR can lead to higher returns. When looking at the environmental side it is clear that this is issues that companies now take seriously since it has been very costly for many companies. EQT believes that social issues are not as risky as the environmental but still understand that if a company for instance have bad working conditions this will probably affect the sales as well as it can make EQT look bad as owners and therefore some investors might refuse to invest in EQT.

EQT doesn’t believe that there is a contradiction between CSR and short term perspective since they normally don’t work with short term issues but rather long term since they need to ensure that the company will be profitable after the exit. The buyer will not only look at historical development but very much on future development and hence then long term issues are just as important.

EQT perceive their main responsibility is to give a high return to their shareholders and doing so by buying companies and manage these companies. EQT argues that they have two responsibilities and customers, their shareholders and their holding companies. Usually there is no contradiction between satisfying both of these groups since the strategies that are good for the holding companies are normally beneficial for the shareholders. EQT believes that a successful company that develops and grows will create benefits that will spill over on society in forms of new jobs, more orders for suppliers etc.

Innovation through CSR is something that EQT believes is becoming a more important tool in order for companies to differentiate their business. EQT believes that the investment companies don’t have the ability to value these issues but rather this depends on the customers. EQT believes that CSR is a good competitive advantage and a good selling point and in the future it might develop to become a must have and not a selling point. “It is about finding a decent balance to a certain level when it comes to demanding the companies to work with these issues.”

5.4.3 Active ownership and engagement in CSR issues

EQT do have some kind of owner policy but the respondent wasn’t sure if they had this policy written down and neither if CSR issues where a part of this policy. EQT active ownership is primary carried out in the board of directors. EQT believe that CSR issues is an aspect that should be discussed but once again the frequency and importance relies a lot on the top management and their interest in these issues. Some issues that are discussed can be work place security, brand image etc. EQT see some of these issues as indicators if it is a well managed company and when looking at for instance work place accident it is often connected to the companies overall profitability which then becomes a pure economic issue. EQT doesn’t demand the company to report on all of the CSR issues but sometimes some issues are discussed and reported to the board but however these issues are usually not reported to the shareholders of EQT.
The role of the investor regarding these issues is different from company to company. The environmental issues are easier since it is directly connected to costs but the social part is harder since it is more difficult to see the direct economic impact of working with these issues and therefore the focus is put more on the environmental issues than social issues.

When working as active owners in the board EQT focuses on issues such as long term strategic planning, industrial development and where the company will be in the future. EQT have a great ability to influence and also uses this ability actively. EQT also meet with the management weekly during their ownership since this in necessary in order to understand and work actively with the company and its development. The extra value by being active owners is that it raises the value of the company.

One example of how EQT works with CSR issues actively is in a company called Munksjö where they currently are developing a turbine to make the industry self sufficient in energy which will lower the costs and thereby increase the profit. EQT argues that this is a good example when CSR is directly connected to economic value of the company.

However EQT argues that they as owners are often positively affected by the companies that work actively with these issues and learn a lot from these companies. EQT sees possibilities to invest in companies that work with sustainable innovations and have been looking at some companies working with these issues. One of EQT’s companies in Germany that produces diesel engines works a lot with developing fuel cells since it is important for their business to have an alternative when the oil price increases. EQT argues that as long as it is a part of the companies business EQT consider CSR to be good opportunities and believe that this will be an important aspect in the future but nothing that will be changed over night.

5.5 MSAB

MSAB invests in public companies and private equity but today MSAB mainly have shares in public companies such as Securitas, Assa Abloy, Hexagon, AarhusKarlshamn. When investing MSAB strategy is to buy a large part of the company to ensure that they can be active owners and influence the holding companies strategies. MSAB invest in many different industries but all companies have in common that their business idea can be transferred internationally.

Before investing MSAB especially looks at the possibility for the company to go international, strong human resources and management and of course a business that MSAB understands and can add value to. After investing MSAB especially emphasize the development of the product/services and not only on the cash flow and return since this is an indicator that highly shift from year to year. There is no exit strategy and thereby MSAB have a long term perspective on their investments.

5.5.1 Direct and indirect work with SRI and CSR issues

MSAB perceive that they have a lot of responsibility since they normally are the biggest owners. MSAB main responsibility is to help deciding in which countries the companies should expand and that they definitively have a great responsibility in the strategic issues.

“We do not see CSR as a risk for MSAB since our holding companies don’t have problems with i.e. child labor”

“The environment has only been a big issue the latest 2-3 years due to global warming etc”

In 2005 Swedwatch published a report regarding MSAB holding company Assa Abloy. The report shows a lack of control of working conditions and violating of the human rights in Assa Abloy’s production in Rumania and Mexico.\textsuperscript{129}

MSAB do not have any ethical criteria or policies regulating in which industries not to invest in and if not investing in example tobacco or weapons it is due to the fact that they don’t have knowledge about this industry and not only to ethical reasons.

If MSAB holding companies would have problems with social and environmental issues it would definitively been issues for the board to handle. MSAB do not make a screening before investing since most of the investments are in Nordic companies and hence MSAB argues that it is enough to make a thorough due diligence and do not see any reason for using consultants to do a screening on only CSR issues. Sometimes there could be the need to use environmental experts.

“I can not imagine that MSAB would be in a situation where an investment would feel ethical wrong”

MSAB believes that their indirect risks are mostly environmental due to situations occurring in the production. The fact that the production is moved to developing countries where the environmental regulations are different from Sweden is of course complicating the responsibility. When looking at Aarhus Karlshamn that is a large producer of products made of palm oil MSAB argues that the greatest risk is the lack of natural resources, in this case the palm oil, which could be due to environmental issues. MSAB argues that the local inhabitants in the producing countries are much better of than if Arhus Karlshamn wouldn’t have used the palm oil. Aarhus Karlshamn is a good example of a company taking good care of the environment in where they operate. MSAB is not sure if the company has a CSR policy but knows that AarhusKarlshamn work s actively with doing business with the local population and for instance they buy nuts from local farmers which are a way to stimulate the local economy.

MSAB argues that they do encourage their holding companies to have policies regarding these issues but it is not something that MSAB demands the companies to have. Neither do they follow up on how these issues are handled in the companies.

MSAB do not know what kind of requirements regarding CSR issues that are put on the management since it is up to the board of each company. It is however according to MSAB definitively issues that are discussed but how far this work has developed is up to each management and not an issue that MSAB knows in detail.

5.5.2 \textit{Attitudes towards Social Responsible Investment and Corporate Social Responsibility}

MSAB argues that investment companies care about these issues and not only short term revenue goals but that the importance of these issues depends on which situation the companies are facing, “if for instance the financial issues are extremely critical MSAB argues that the environmental issues are not important since they become theoretical if the company does not survive”.

\textsuperscript{129}Bjurling, K. \textit{Expansion i låglöneländer med etiska risker - Assa Abloy i Rumänien och Mexiko} Swedwatch \texttt{www.Swedwatch.org} 2007-05-19 12.23
MSAB would probably prefer to buy a company that takes sustainability issues seriously since they expect that this company will show good results in the long run. Companies that have taken these issues seriously have probably managed to create values around these issues which is good for the development of the whole company.

The return on CSR is according to MSAB to ensure good long term relations, both to end consumer and business to business. The awareness is high since many companies have realized that this is an issue that is important for the long term development of the firm. However MSAB believes that even if companies have realized that these issues are important there is still a lot to do in order to put the policies in action.

The purpose of the business is to make profit, businesses also have a truly important function in society but question is where to draw the line, “should companies ensure that there is a cultural life, some say yes some say no, we do not sponsor cultural life but if we are operating in a country we should definitively ensure that UN Human Rights are respected but we will not sponsor the local opera”

In the long term MSAB believe that CSR issues can increase a company’s value but in the short term they don’t believe it is possible to see any results. “If we for instance are producing in a developing country this is an environment that is developing and hence becomes an important market for the company and thereby it is beneficial for the companies sales in the long run” MSAB believes that there are business opportunities within CSR and refers to the health debate being a business opportunity for Aarhus Karlshamn. The level of CSR depends on the company and the industry, when looking at consumer products the brand is most important and hence there is more business opportunities connected to CSR in consumer products.

MSAB also believes that there are persons that are not willing to work in a company that produces tobacco and there are people working in “good” companies that are more proud which might lead to them making a better job.

“In the end the consumer is always right and therefore in the end it is up to the consumer to demand the companies to put CSR highest on the agenda, it is the individual choice of each consumer that matters”

5.5.3 Active ownership and engagement in CSR issues

MSAB argues that their roles as owners to influence the companies to work with these issues are just as big as their responsibility in other issues. “However, in the end it is up to the company’s management to decide how far they want to develop their CSR work. We can inspire and follow up but it is up to each management.” If the companies are not working with these issues and the risk of not doing so is very big for the company MSAB will handle it just as any other problem, to put in an action plan and if this doesn’t help they will shift the management.

MSAB believes that CSR issues are probably discussed at the board level but maybe it is not referred to as CSR issues but rather in combination with other issues. For instance it can be an issue on how Aarhus Karlshamn will be able to secure their long term supply of palm oil so that they can continue with their business. “What is a sustainable production that helps us secure the supply of palm oil in the long run?”

As owners MSAB has a lot of opportunities to influence the strategic planning of their holding companies which is mostly done through the board. Once a year the companies hold a meeting where the strategic
planning is done and hence these are the meetings most appropriate for discussing CSR issues. The extra value created by being active owners is that MSAB can push the companies to develop. MSAB has a ownership policy where some CSR issues are integrated such as the Human Rights and environmental responsibility. According to the CEO this might only be nice words and there are no follow up or revision of the companies action regarding these issues. MSAB do not demand reports on the action on CSR issues due to the fact that reports are probably only nice words that doesn’t tell anything about reality.

MSAB argues that “The rubber hits the road, what local management do we have in the country where we operate and how do these people look at those issues is what really matters”

When looking at climate change MSAB are considering how they could be able to make an investment in companies that are working with these issues since it is a good investment but have not yet made any investment in for example renewable energy or environmental technique.

“Companies only dare to invest in something that they believe that consumers want to buy”

“Some issues will not be solved thanks to either consumers or companies, for instance discharge and climate change, since these are issues for our politicians. It is not easy for a single car producer to produce a more expensive but less pollutant car; no one will want to buy that car

5.6 Summary of empirical findings

In the previous chapter I have presented the investors Banco, Robur, Ratos, EQT and finally MSAB and how the work with CSR and SRI and their attitudes towards those issues. Finally I present how they work as active owners. The part that deals with the attitudes might be seen as a very subjective part of the empirical findings but it will be useful in the conclusions since the attitudes is a good indicator to what is really happening in the companies when it comes to CSR and SRI issues.

The overall main findings of the empirical data are that Banco and Robur are more aware and have systematized their work with their indirect responsibility, SRI, as well as their direct responsibility CSR. Ratos, EQT and MSAB still has a long way to go before they play in the same league as Banco and Ratos. However, they do show some understanding and interest in these issues and primarily when it comes to SRI since they all argue that their direct impact is insignificantly small and hence rather focuses on the indirect impact. Further on the empirical findings show that Banco and Robur have less formal power to influence due to them being small owners but tries to influence the companies more in CSR issues than any of the others. EQT and Ratos perceive that they have all the possibility to influence since they own to have control but mainly use this in issues such as financial performance and strategy. MSAB also have great possibilities but not as large as EQT and Ratos since MSAB don’t own so large share of the companies as Ratos and EQT.

I will in the following chapter interpret the empirical findings by comparing with appropriate theories that I have presented in the theoretical chapter.
6 ANALYSIS OF THE EMPIRICAL DATA

I will this chapter analyze the empirical findings by interpreting it through the theories. I will use theories that are appropriate for the findings of the study and also the theories that are not coherent with reality since this is also an important finding. I have chosen to analyze each of the sections separately following the same headings as in the empirical framework I will use sub headings in the headings showing which of the theories I am using for the analysis since this will enable the reader to follow the analysis.

6.1 Direct work with CSR and indirect work with SRI

In this part I will analyze the findings on how the investors work with taking responsibility of their own direct impact and the indirect impact, through their investments. Since the study is focused on the indirect impact this is also the part that I will mainly focus on in this part of the analysis.

6.1.1 Direct impact and the investors work with corporate social responsibility

Banco has reached far in developing their indirect work with sustainability issues but they have just started to develop policies and actions for their direct impact. However it seems like Banco now have started to work actively with the risks that their direct impact poses on the society and especially the environment since their direct social impact is limited. In 2006 they launched an environmental policy for their direct impact which i.e. regulates their purchases to the office and business travels. Their environmental work is innovative with climate neutral business travels and one theme day per year devoted to climate and environment show that environmental issues are important for Banco and not just a seen as a marketing tool. Looking from the theory it can be argued that Banco engagement in CSR is somewhere in between building their brand and being innovative. One example of their innovation is the new climate neutral fund that they launched in 2007. This is also in line with the reciprocal strategy since its goal is enlightened self interest that will create economic value for Banco by contributing to an environmental sustainable development. This will enable Banco to attract shareholders, to create a positive brand association and to contribute to a better climate which according to Galbreath is a strategic way of working with corporate social responsibility since it is in line with Banco’s core business and hence an action that can create economic value for the company. The positive effects from working with CSR issues are according to the theories increased brand value, customer satisfaction, employee satisfaction and attracting investors which are all effects that Banco recognize that their direct work with CSR have brought.

Robur are a part of Swedbank’s work with taking responsibility for its direct impact on society and contribute to a sustainable development. Swedbank have a CSR policy that is well developed and integrated into the annual report which indicates that Robur and Swedbank have realized that they have a direct impact on society and work to minimize this impact. If placing Robur on the scale between risk minimizing and innovation I would argue that Robur have to some extent managed to increase their brand value with regards to them communicating to stakeholders about their CSR work and being highly transparent. The communication is one of the three main reasons for companies to work with CSR according to the theory. When it comes to the direct work with innovations connected to CSR such as Robur’s actions to fight climate change or supplying more capital through micro finance the innovation and understanding is still not very high and Robur do not show work that indicate that they have realized the business potential within these areas. However there is an awareness and Robur have discussed their possibility to launch a micro finance fund and are currently working more with how they as owners can help to fight climate change but
there is yet no actual services/products in their business that focused on these issues or similar issues. I would say that looking from the theories Robur’s work is most coherent with the citizenship strategy since they show that they try to respond to the shareholders, their holding companies, the environment etc. The reason for doing so is because Robur believes that the effects will be beneficial for the company and hence they also to some extent live up to the reciprocal strategy.

Ratos do not have any policies regulating their direct impact on their stakeholders or the environment since they argue that they pose a very low direct risk on society and the environment and hence there is not any department or person working with corporate social responsibility issues. However Ratos have historically been an active member of society and work with Save the Children, Stockholms Stadsmission etc which can be seen as community involvement that according to the theory is a way for the company to take on social responsibility since it strengthens the company’s operating environment. Usually community involvement refers to companies that are operating in developing countries where there might be necessary to build infrastructure in order for the business to work. This kind of involvement will hence also have positive effects on the surrounding community. Since this might not be the case for Ratos it can also be seen as pure philanthropy and altruism since it is a way to give back to society and not in line with their business actions. If comparing with theories on different views of CSR I would argue that Ratos are engaged in societal projects without expecting any return to the company. According to Galbreath this can also be seen as a strategic way of working with CSR since it can give good PR for the business and in the long run attract customers, and in this case investors, since it communicates a positive image of the company. There is nothing wrong with Ratos charity actions and even if I believe that Ratos is not aware of this I argue that supporting these causes might be strategic smart in both the short term and the long term. Short term since it at least doesn’t harm the business and probably give Ratos a better image and can even strengthen their employee satisfaction and shareholder satisfaction. In the very long run it is smart since it is a way for Ratos to contribute to a positive societal development which will benefit them since they depend on society and will not be able to do business in a chaotic world. This is a very long term perspective but a perspective that is important and in the future this will be a strong mean in it self since business depend on a well functioning society. Overall I would say that Ratos have to some extent managed to build up their brand around being an engaged and good investors due to their community involvement and charity but they have still far to go before realizing true business potential in working thoroughly with CSR.

EQT has the same idea as Ratos, that since their direct impact on society and the environment is so minimal there is no need to have any policies regulating for examples business travels, office purchase etc which according to the theories on CSR do not make EQT to a social responsible company. I argue that all companies operating in society has an impact just as the single consumer has an impact and responsibility. We can all make a difference when it comes to small decisions like what coffee to buy or what transportation to choose. So I do not agree with EQT that they do not have an impact and even if the direct impact is small compared to the indirect it should be easy for the company to try to take responsibility for its direct impacts. Doing so will as the theories suggest make EQT a more interesting employer, create positive brand associations as well as it can strengthen the employees and shareholder satisfaction. I also believe that if EQT starts to work with their direct impact can create spin off effects on the indirect impact since it requires EQT to understand and discuss these issues within the company which can lead to an overall increased understanding for CSR within the company. EQT definitively is at the beginning of step nr 1 on the CSR level of engagement since they have started to realize that there might be risks and costs that can be reduced if increasing their direct work with CSR issues. They are realizing that these issues will be
important in the future and that they might need to speed up on their work; however it seems like it is rather external forces than internal understanding that will make EQT start working more with these issues.

MSAB neither work with their direct impact since they only have three persons at the head office and hence their impacts are low, but however I believe that the same arguments applies for MSAB as EQT in this question since they are an formal member of society and hence have a responsibility. I do however understand that MSAB perceive that their direct impact is so low that it is not interesting if comparing to their indirect impact. However MSAB do not live up to any of the theories about levels of engagement in CSR or any CSR strategy.

6.1.2 Indirect impact and work with social responsible investments.

Banco works actively with taking into consideration CSR issues in their investments which is one of the criteria for a social responsible investor according to theories and international conventions on SRI. The overall impression is that Banco are interested and taking the issues of SRI and CSR seriously. According to many researchers and international bodies an investor truly devoted to SRI works both with screening and engagement which is also what Banco does since they don’t settle with only ensuring that the company is fulfilling a number of international standards but are also actively trying to push the companies to develop their work with CSR to new levels. By doing so they live up to the UN PRI as well as it is in line with other researchers within the area of SRI such as i.e. Henningsen. Banco are also following the trend among researchers that active ownership and engagement is more efficient than just using negative screening since being active owners in these issues enables them to influence and trigger the companies. Banco has signed a number of international conventions on social responsible investments and corporate social responsibility which is another factor that shows Banco’s interest and engagement in these issues, of course it can be argued that it is easy to just sign and then do nothing about it. Frankental argues that businesses claiming to take on a bigger responsibility only want to create positive PR but I argue that this is not the primary case for Banco even if it of course is a good way for them to create a positive image of them as a company. In Banco’s case their rigorous SRI policies and people specialized in these issues are reasons to believe that they are working according to these international guidelines and hence are serious about their SRI work since they understand that doing so makes business sense.

Banco does not use the SRI screening and engagement on all their funds which according to Guyatt is one of the obstacle to overcome before the investor can be fully engaged in SRI issues. It seems like the SRI departments works separated from the core analytical team. By not integrating these issues into all investment decisions Guyatt argues that it will be easier for the mainstream investors to truly ignore these issues since the SRI department takes care of this. The results from Banco also indicate that there is a need to make the mainstream analysts more interested in SRI. Banco also argue that there is a need to show how these issues are connected to the companies return in order to make them more accepted by the mainstream analyst, this is also coherent with the second obstacle that Guyatt discusses in his article. I agree that it does seem strange that Banco doesn’t use the criteria in all their funds. Banco communicates that SRI is a part of their philosophy and that they are working actively with these issues and hence I believed that it was a basic issue in all their investments. It seems like the willingness exists but that it is not fully integrated due to obstacles such as lack of measurable return and full acceptance of these issues on the financial market.

Robur resembles a lot to Banco in their work with SRI and how they take responsibility for the indirect impact. They work both with screening, both positive and negative, and engagement and hence are coherent
with the theories on what an investor working with SRI should do. There is however some differences which according to theories on SRI would put Robur as an investor that focuses more on the engagement and a bit less on excluding companies through negative screening. Robur uses a globe with three different layers whereas two of these groups are accepted in the SRI funds. The first group is the so called “good examples” and the second group is the companies that are “accepted with special requirements” indicating that Robur are willing to include a company and then try to influence the company to change. This is the new trend among researchers and investors and hence it can be argued that Robur are more coherent with the current trends in the SRI area, but still it can also be argued that this way of working does not enable Robur to ensure that all companies included in their SRI funds are truly devoted to CSR. The greatest weakness of Robur is the fact that only 9 billion out of 350 billion is invested according to SRI criteria sand that the SRI department is separated from the core investment team which is one of the obstacles that Henningsen describe as crucial to overcome before SRI can be an important part of the mainstream analysis. Robur also agree with Henningsen that there is still a dominance of measurable financial data and that the main stream analyst is still not really concerned about the SRI department’s analysis. However Robur Ethicas funds have performed extremely well and therefore the mainstream analyst are starting to care about SRI issues. The reason for not investing all 350 billion with the same SRI requirements is because Robur do not perceive that they have this mandate from their shareholders. This indicates that Robur’s primary interest is the shareholders and not all stakeholders showing that they to some extent are coherent with the shareholder strategy meaning that business is ultimately responsible to its shareholders. However it can also be argued that by not claiming to only work with SRI Robur is more responsible since the opposite would mean that they as the second largest owner in Sweden would need to place 360 billion in social responsible companies which might not be possible due to lack of appropriate companies on the market.

Ratos have a social code of conduct that regulates their holding companies social impacts on society which in line with Henningsen theories is based on international conventions such as the UN Children’s right and ILO. The fact that this policy exists indicate that Ratos have realized the issue of SRI but in their own way since they are not demanding all their holding companies to have policies regulating their social impact. Hence I argue that Ratos social code of conduct is based on moral issues and to some extent also risk minimizing issues but it is not systemized or applied in all investments. Depending on the company and its social risks and impacts Ratos do make their own screening that is based on reports from NGO’s, consultants specialized on CSR as well as talking to the companies about these risks before making the investment. If there are social impacts that need to be taken care of the cost of doing so will be included in the cost of the investment. This indicates that Ratos somehow measures the social impact in monetary terms which show a level of understanding to the importance and risks connected to social issues. However the fact that the head of information is responsible for these issues indicates that it is more of a communication and information issue rather than an integrated part of all investments which according to the theory is one strong obstacle that companies need to overcome before SRI can be mainstreamed. This is also a strong argument from critics to CSR arguing that as long as CSR is handled by information/communication department it will continue to be just a PR tool. On the other hand all employees working at Ratos are educated i.e. human rights issues since Ratos believe that it is the responsibility of each person to consider theses issues. This way of working is good and compared to Banco and Robur it can be argued that if these issues were more formalized at Ratos their way of working with social responsible investments by engaging in CSR as active owners would mean that they became important in the mainstream investments which would help to overcome one of Guyatt’s three obstacles, long term responsible investments separated from the core investment process. Ratos do not have an environmental policy regulating their investments since they argue that the environment is such a natural part of everything they do a policy is not needed. I argue
that for Ratos to be able to have control and take responsibility for their holding companies environmental impact it is crucial to formalize their demands on environmental responsibility. This is also supported by researchers such as for instance Henningsen as well as international conventions as the UN PRI. Ratos overall engagement and interest in environmental issues will be discussed later in the analysis.

EQT do not have any policies regulating their indirect impact on society but do however realize that they as indirect employers to over 470 000 individuals over the world have some kind of social responsibility but they do however not regulate this responsibility with any policies which according to the theories doesn’t make them a social responsible investor since this require them to be engaged and working actively with SRI issues. The fact that EQT argues that CSR issues is the responsibility of each company can be seen as a way from EQT to not want to micromanage the companies but according to theories social responsible investors should realize their own responsibility and ability to influence. Hence EQT’s argument is not accepted by the researchers within SRI. However it is important to point out that just because investors hasn’t formalized their policies or action plans there is still a possibility that these issues are incorporated in the business actions and investment decision. EQT has refrained from some investments in tobacco due to the fact that the risks were too high and the industry is highly sensitive. EQT agrees with the critics and argues that all different guidelines and principles are only a way for companies and investors to market themselves and nothing that works in reality. Therefore they have decided not to follow or develop any principles within this area. This is a weak defense and even if many of the principles and codes of conduct might to a certain extent be nice words and PR it is a beginning and an indicator showing that the companies have thought about these issues. EQT argues that screening is a part of the due diligence process and hence do not make a special screening on CSR issues. Due to the lack of knowledge and interest in these issues I believe that the due diligence is not very focused on CSR issues and if so it is a very shallow and not prioritized area of the due diligence process. There is no person responsible for SRI or CSR within EQT which indicates that it is not an area of interest or importance.

MSAB argue that they “do not see CSR as a risk since their holding companies don’t have problems with i.e. child labor” which I argue is a strange attitude since the overall knowledge in these issues seems to be low at MSAB. It also show that MSAB is not very aware of these issues in their holding companies since i.e. Assa Abloy some years ago were reported on violating the human rights by the low working conditions in their factories in Mexico etc. MSAB argue that they do not have any policy or ethical criteria regulating their investments but on their webpage there is a policy called CSR – social responsibility and environment, which states that they as owners continuously work with ensuring that their holding companies take responsibility and live up to international conventions such as the UN Human Rights and the OECD Guidelines etc. The fact that the CEO does not seem to be aware of this shows that it is not an integrated part of the core investment process and hence it might be coherent with the theory of CSR as a PR tool rather than a part of MSAB investment strategy. MSAB also argues that the reason for not having any policies or not making a screening is because most of their investments are in Nordic countries; this is an interesting reason and if looking at MSAB’s portfolio the main part of the companies has had international operations long before MSAB became owners which lower the strength in this argument. One example that shows MSAB knowledge and control over CSR issues in their companies is when we discuss their holding company AarhusKarlshamn that is the world’s largest producer of palm oil. MSAB argues that AarhusKarlshamn is a company that takes good care of the environment but the CEO of MSAB does not know if the company has an environmental or CSR policy and neither do they demand the company to report to the board on development of these issues. It can be argued that AarhusKarlshamn operates in a sector that is highly sensitive and with high CSR risks but the engagement and knowledge from the owners in these issues seem
to be minimal. My overall impression is that MSAB has a very low knowledge in these issues which is a prerequisite in order for them to be able to start working with these issues and demand their holding companies to show results in their CSR work.

6.2 Attitudes towards Social Responsible Investment and Corporate Social Responsibility

In the theories I present some different views of the purpose of business and how companies can work with CSR since I argue that it is important in order to understand the reason why some companies work more with these issues than others. I will also try to analyze the respondents’ view of the different obstacles and critics that exist in the theory. Further on I will also explain the investors perceived responsibility from the theories that exist within this area. The idea is to get an understanding on how the investors view a number of ideas and hence by this information I will be able to draw conclusions on how the investment industry will develop in the future with regards to CSR and SRI issues.

Banco argues that investors and providers of capital have the responsibility to understand the issue of CSR and what the investment is supporting and in order to do so it is crucial to be aware of the basic conventions such as the human rights, ILO and issues such as climate change etc. Their main purpose of Banco is to create economic value to their shareholders but doing so without violating the interest of all stakeholders. This way of looking at a company and its responsibility resembles to the citizenship strategy since it requires the company to take into consideration all its stakeholders and their interests and doing so by expecting a return to the company. Banco believes that their work with CSR and SRI can increase both Banco value and also the value of their holding companies and hence they see a positive correlation between these issues and economic value creation. They agree with the researchers that claim that one of the obstacles to overcome before SRI can become fully integrated into the core investment is that the financial market uses their power to influence the companies and thereby create incentives. Theories argue that there is contradiction between a short term perspective and CSR but Banco do not agree since they argue that for instance issues such as environmental degradation is already highly visible today and therefore it is no longer a short term issue. The cost of not doing anything might be here tomorrow and therefore there should not be a contradiction between i.e. fighting climate change and profitability. Bengtsson has made a study on shareholder activism which indicates that investors perceive that they have a three dimensional responsibility, to the shareholders, towards their holding companies and towards society at large and the function of the financial markets by showing what is accepted and not accepted behavior on the financial market. Banco way of looking at their responsibility is that they are responsible to their shareholders and to society but the never mention that they feel responsible for their holding companies. Finally Banco’s way of working with SRI shows that this is not totally integrated in the company since it is not a natural part of all investment decisions and hence this will not help to speed up the development of making SRI a part of the core investment process but rather it will continue to be seen as an attribute that is not really as important as the “real business”.

Robur is coherent with the results of Bengtsson study on investors’ perceived responsibility since Robur argues that they have a responsibility for all their stakeholders, which includes shareholder, holding companies and society. Robur argues that they work with SRI since it makes business sense and it is a way for them to gain market shares and increase customer satisfactions which are reasons and effects that are discussed in the theories on why companies engage in social and environmental issues. Robur way of looking at the financial market and its responsibilities is coherent with one of the main factors that Frankental’s argues that we need to overcome in order for CSR to not just be a PR invention. Robur argues that investors have the power to make companies increase their work with CSR issues. By showing that the SRI
funds perform well Robur believe that they are helping to make the financial market reward CSR issues. Robur have however not integrated the SRI issues in all investments but it is a separated department and not issues that are highly discussed at the top management level of Robur. According to Frankental this is a factor that companies need to overcome in order to not only regard CSR and SRI as a PR invention. But on the other hand Robur is aware of this problem and tries to work with their holding companies to raise the importance of CSR issues to a higher level in the companies by talking to the management, so in a way Robur as organization still has this obstacle to overcome themselves and at the same time they are engaging in this obstacle in their holding companies.

Ratos perceive themselves to have the final responsibility for their holding companies and greater responsibility than the management since they are the ones that choose the management and the board. Ratos perceived responsibilities is somehow coherent with Bengtsson’s study since they argue that they have a three dimensional responsibility. As a member of society they need to be aware of the rules and regulation that exists, but they do not as Bengtsson argue, perceive that they are responsible to communicate what is accepted behavior on the financial market since Ratos do not believe that they can influence the financial market. The view of CSR at Ratos is that it is their social responsibility to engage in these issues since it is a tradition coming from their founders the Söderberg family and fostered within the organization. Ratos does not agree that CSR is an innovative way of doing business and neither do they have the possibility or responsibility to speed up the development of CSR which leaves them at a risk minimizing and philanthropic level. CSR is not something that Ratos believe will create returns to the companies and the reason for engaging in social issues since is because it is their duty as owners and not because it can create value or returns to the company which shows that Ratos works according to the altruistic strategy. Ratos are very skeptical to all new frameworks and guidelines and just as Sahlin Andersson they argue that these conventions are pointless since they just makes it harder for business to operate and signing them wouldn’t be honest since it wouldn’t change the way Ratos work with CSR issues since they perceive their work to be complete and sufficient. Ratos do not agree that investors can create incentives for companies to start working with these issues but argues that this need to be handled by the market and the consumer, this show that Ratos do not perceive that companies has a broader responsibility and function as good examples that lead the way towards a sustainable development. To the extent that Ratos work with social issues they do it in all investments meaning that it becomes a natural part to consider for all their analysts and investor and hence they have somehow managed to overcome the last obstacle explained by Guyatt.

EQT has a risk minimizing view of CSR since they argue that environmental issues are easier to work with since the cost of not doing so are easier to measure in pure economic terms and hence resembles with the idea that there is a need to find measurable results indicating that CSR can lead to higher returns. EQT also show a lack of understanding for social issues and risk since they argue that the companies that they invest in doesn’t pose a social risk on society which is interesting since they own companies in China with operations all over Asia and hence the social and political risks are a fact. This indicates that EQT has not reached far when it comes to risk minimizing on their social impact. EQT is waiting for the shareholders to start demanding a more comprehensive work with these issues. EQT also points out that to consider CSR issues is just another issue on the list before making an investment and that it is not really prioritized which indicates that EQT have not realized any value of being engaged in CSR. This way of looking at CSR is coherent with Andersson Sahlin criticism based on the argument that CSR is just another regulatory framework that puts demand on companies without any actual outcome. EQT does not agree with Guyatt that there is a contradiction between the short term and CSR since they always consider the long term development of the company. EQT main responsibilities are to give high return to their shareholders and to
create value in their holding companies which compared to Bengtsson’s theory on the investors responsibility lack the responsibility for society and the financial market. EQT argue that by creating profits they will create positive effects on society. This is coherent with the shareholders strategy and the way Friedman perceive business responsibility. Hence it can be argued that EQT view is not a much updated way of looking at business but still not surprising since many actors within the investment industry is still only focused on creating high returns. CSR is put on their holding companies rather than on the investors which is also applicable at EQT. However EQT are looking for possibilities to buy for instance companies working with renewable energy since they believe that there will be a great demand for this in the future and hence a good way to create returns for EQT which indicates that there is an understanding for the innovative and business development side of CSR.

MSAB perceive the purpose of business is to make profit but that business also have an important function in society. MSAB however find it hard to draw the line where that responsibility ends and hence they also seem to follow Friedman’s view of business and not fully coherent with Bengtsson’s view of the three dimensional responsibility. MSAB perceive that business should follow rules and laws but they do not engage in community involvement since they argue that this should be done by the governments and not the private sector. MSAB believes that CSR creates value in companies that sell directly to consumers and hence this indicates that MSAB perceive CSR as PR tool and a tool that is great for building the brand. However MSAB also realized that CSR can lead to other positive effects presented in theory, such as employee satisfaction which in the long run can create value for the business. MSAB has the same view as Ratos and EQT when arguing that it is the consumers that holds the final responsibility since they have the power to influence the companies. This show that MSAB does not agree with Frankental’s theory that CSR should be rewarded by the financial markets since MSAB argues that the financial market does not have the power to reward CSR. MSAB interest and understanding of environmental issues is clearly communicated by the following statement “The environment has only been an issue the last 2-3 years” which I believe clearly shows that an investors as MSAB have a lot to learn before they can start do demand their holding companies to work more innovative with environmental issues.

6.3 Active ownership and engagement in CSR issues

In this part of the analysis I will compare how the companies overall work with active ownership and also how they engage in CSR in their ownership strategies. This part will be based on what was said during the interviews but also what was not said during the interviews since this is also important. I will use theories from the chapter 3.3 concerning ownership strategies and the motivations for investors to engage in CSR issues.

6.3.1 Active ownership through confrontational, mixed or collaborative approach

According to Bech there are three different ways that investors usually work with active ownership; the collaborative, the confrontational and the mixed approach. Banco works with all the three different approaches but I perceive that they mostly work with the mixed approach since they demand companies to change or improve something in their CSR but seldom sell their shares and hence they are not mainly confrontational but neither totally collaborative in their approach. However Banco has sold their shares in
some companies which indicate that they can be confrontational when the management doesn’t make the changes that they require.

Robur are compared to Banco even more mixed in their approach since they always work with different criteria depending on situation and company and hence they are subjective which is characteristic for the mixed approach. Compared to Banco they choose not to exclude Clas Ohlsson which also indicates that they are not as confrontational as Banco but rather focuses on the mixed approach.

Ratos are really confrontational in the beginning since they usually change the management if the management can not live up to their demands on 20 % return per year. However they are not confrontational on CSR issues but instead use a more mixed and subjective approach. The reason why I believe that they are not as confrontational on CSR issues is since Ratos argues that the CSR engagement depends on each company and its interest and need to work with CSR rather than strict CSR goals that Ratos puts on the management. After replacing the management Ratos have a collaborative approach which is natural since they have chosen the management and board members that share the same ideas as Ratos.

EQT uses the same confrontational approach as Ratos but the information from the empirical research indicates that EQT are usually a bit less inclined to change the management but if needed EQT sees this as an option. EQT seems to work tightly with the management using a collaborative approach when the management of the firm has the same ideas as EQT. When it comes to CSR issues EQT argues that the companies are usually more familiar with these issues and hence EQT has not demanded the companies to work with any CSR issues that the companies have refused. It is more common that the companies are further developed in this area and therefore CSR is not an issue that EQT confronts their holding companies with.

MSAB work with CSR issues according to the collaborative approach and argue that their role is to influence the companies but that it is up to the management to choose if they want to listen and work with CSR issues. This indicates that MSAB are happy with the management’s work with CSR issues and will not confront their holding companies to change their engagement in CSR. MSAB often work with the companies in other more conventional issues and since MSAB are not the main owners in all their companies it is hard for them to be confrontational since they can not easily replace the management. Hence MSAB need to be more collaborative or mixed in their approach when working with their active ownership.

According to the Responsibilities of Institutional Shareholders and Agents – Statement of Principles an active and responsible investor should intervene in issues regarding strategy, operational performance, CSR etc. which is something that all the investors do but with focus on different issues. Banco’s and Robur’s SRI departments intervenes a lot when it comes to social, environmental and business ethics issues as well as their normal fund managers intervene when it comes to more traditional issues such as the strategy, financial performance etc. If nothing is changed they also just as discussed in the theory meet with the management. Ratos, EQT and MSAB live up to the statements but only when it comes to the more conventional issues and not so much the CSR issues.

Due to the fact that all of the investment companies works as active owners they indeed intervene in all kinds of issues in the companies but focus for all of them and especially for Ratos seems to be the financial performance. EQT seem to focus more on the industrial development and changing the structure of the company whereas MSAB are intervening in the internationalization of the company. The kind of issues
where the investor intervene is of course depending on their ownership strategies but it can be overall concluded that that Ratos, EQT and MSAB all intervene actively in the strategic planning of the companies and not that much when it comes to CSR since that is left to be handled by each management.

Mc Kinsey argues that private equity companies that in this study is represented by EQT and Ratos often work with a number of different features as active owners in their holding companies and the features that are the true active ownership is the ones that has to do with the business ethics and overall governance issues where CSR is usually one part. However the empirical findings do not indicate that these issues are the ones most prioritized in Ratos and EQT compared to issues such as industry development and yearly return. One of the features is also to devote a lot of time which is indeed done by Ratos and EQT since they during the ownership have a very active dialogue on a weekly basis with the management.

6.3.2 Ownership behavior- exit, voice or loyalty

Strömberg theories on different investors’ possibility to influence companies differently due to the time horizon show that private equity companies and other companies who have shareholder that lock their capital for a longer period of time have greater possibility to influence the companies than for instance fund companies where the shareholders can sell their share over night and hence the fund managers are more vulnerable to their shareholders actions. Another reason for the private equity and other investment companies to be active owners is that they have strategic goals that should be achieved before the exit and hence need to influence the companies more than fund managers are required to do. If comparing with the empirical findings it can be argued that the time horizon of EQT, Ratos and MSAB is longer since they are more or less obliged to work with a company for at least three years in order to be able to create economic value and no one of the investors regarded an fast exit as a way to get rid of a company that wasn’t working as they wanted since this would mean great financial loss. Hence it can be argued that due to the fact that EQT, Ratos and MSAB have great possibilities to really influence the companies work with CSR issues but if looking at the empirical findings this is not an area that is highly prioritized.

If looking to Banco and Robur a fast exit is the last option but it does occur and especially when their holding refuse to change or even neglect the fund managers demands. One example was when Banco sold its share in Clas Ohlsson and Robur didn’t which shows that Banco are more inclined to use exit than Robur. The exit is not applicable on the investment companies since an exit when a company is not behaving well would mean a too great financial loss and therefore Ratos, EQT and MSAB are more inclined to be loyal and use their voice which is the two other types of owner behavior. Using voice as a mean for their owner behavior is also applicable to Banco and Robur since they have an active dialogue with the management on CSR issues and by doing so tries to influence the companies. Overall it seems like Banco are more inclined to be more definite whereas Robur seem to be more loyal and wait for the companies to change rather than making an exit. Hellman argues that fund companies doesn’t use their voice but rather exit which is not a behavior that is applicable on Banco and Ratos and neither does it seem like they as Hellman argues consider the cost of raising their voice and the relative cost of not raising their voice. Banco sometimes use its voice high and in public which is a behavior that Hellman argues to be a way for the fund company to create legitimacy whereas Robur prefers to use its voice silently and hence their behavior is not applicable to Hellman’s theory. Overall both Banco and Robur use the voice function as the biggest mean to influence since they actively meet with the management to discuss and follow up how CSR issues are handled.
Loyalty is sometimes an owner behavior that is used by Ratos, EQT and MSAB and especially when it comes to CSR issues since they don’t really do anything to influence the management to change in these issues, and hence in this sense is a rather passive and loyal owner. But on the other hand especially EQT and Ratos are very active owners when it comes to other issues such as strategy, financial performance, internationalization etc. It is therefore hard to apply a certain ownership behavior that applies since the kind of behavior differs depending on the importance of the issue.

There is no doubt that the investment companies also use voice as an important mean but on other issues than the fund companies. However it can be argued that the voice is overall for all of the respondents the most used owner behavior since neither loyalty or exit actually is a long term good solution for the owners to influence the behavior of the companies.

Bengtsson research indicates that owners that buy only small part of a company tend to use exit more frequently than bigger investors which is also applicable with the results from my empirical findings. Banco and Robur tend to see exit as an option more than Ratos, EQT and MSAB which probably depends on the fact that the fund companies more easily can use an exit without making a huge financial lost.

6.3.3 Ownership strategies and motivations for the investor to engage in CSR issues

According to some theories on active ownership it is common that traditional investors such as family owners and financial groups usually have a hard financial focus when practicing their ownership which is applicable for Ratos, EQT and MSAB. They all argue that it is important to change the companies and develop the companies’ industrial focus and strategies during their ownership which will lead to a high return. EQT is the investor that mostly points out the importance of industrial focus as one of the main ingredient in their ownership strategies. The industrial focus is not as applicable for Banco and Robur since their ability to influence the companies’ strategies and possibility to replace the management is limited. Instead Banco and Robur influence the companies by meeting with the management, share knowledge and inspire in issues that they find important, everything from CSR to strategic development. However both Banco and Robur argue that they are not in position to influence the companies’ strategies to a great extent since their holding is just a very small part of the total holding in the company.

Theories like i.e. Bech et al show that investors that work with active ownership make the holding companies perform better than index and other theories show that CSR is a good tool for creating financial revenue. This together should give incentives for investors to work actively with CSR in their ownership strategies, but what does the empirical evidence show about the investors’ engagement in CSR issues?

Banco works with active ownership in CSR issues and in other issues but has devoted a special department to work with SRI. In their ownership policy there is a paragraph that regulates how Banco works with "ethical issues" in their holding companies that are included in Banco’s SRI funds. Hence CSR issues are a part of Banco’s overall ownership strategies but carried out by the SRI department and hence not fully integrated to the overall ownership strategy of Banco. Banco does recognize that the financial performance is usually higher in companies that work with CSR issues and this is also one of the main reasons why Banco work with these issues as owners, since it is financial viable for Banco. Other reasons that the theories suggest being motivations for companies and hence also owners to work with are that CSR can reduce non financial risks. This is something that Banco also motivates to be one of the main reasons for them working with these issues and they influence the companies to work proactively instead of reactively since they by doing so can avoid
many risks that are connected to CSR. This behavior shows that Banco has not only realized the non financial risks but also acts to minimize these risks, by being proactive and in some cases exclude companies that doesn’t fulfill Banco’s demands on how to handle CSR risks. Theories also suggest that companies’ working with CSR is more innovative and competitive which Banco also agrees on and they see their role as to trigger and push companies to be innovative in CSR issues and realize both possibilities and risks. Banco tries to transfer knowledge and give good examples and ideas to companies when it comes to handling CSR opportunities and understand the business case for CSR. However Banco doesn’t perceive that they as relative small owners have the possibility to come with ideas to their holding companies since the companies know their own strategies better.

Robur have a paragraph in their ownership strategy that concludes the demands that Robur puts on the boards and management work with environmental and ethical issues which shows that Robur has integrated this into the overall ownership policy but that the actual work is still carried out by the SRI department. Robur works with CSR in their ownership strategies due to different reasons such as morality, risk minimizing and the fact that it leads to competitive advantage, both for them as a fund company and for their holding companies. Robur clearly states that one motivation for them to work with these issues is because they believe that it makes business sense and companies engaged in CSR issues have proven to give higher financial results, and the Robur Ethica funds are according to Robur a great proof that the financial performance is higher in sustainable companies. Hence this way of discussing shows that Robur agrees on the first motivations for investors to engage in CSR issues. Robur also realize that it is a smart way for them as investors to manage non financial risks that have proven to be very costly for the companies and for them as investors since the non financial risks usually affects the returns in the holding company. Finally Robur has to a certain extent realized that CSR can be connected to innovation and competitive advantage but do not mention this as an equal strong motivation for them as owners to engage in CSR issues since the development of business ideas born in CSR is still not very common in the business world, but has just recently started to develop. Robur only seem to work with CSR issues together with the general ownership team when there is a situation that might have big affects on the investment of Robur. This behavior show that Robur are reactive and that mainstream analyst care about CSR issues first when there is a situation but they do not work proactively. This indicates that the mainstream analysts regard CSR as a way to avoid costs but not as a mean to create profits which is also coherent with the obstacles that the impacts of CSR need to be measurable in order for main stream analysts to take these issues seriously.

Ratos works very active as owners and have integrated social but not environmental responsibility into their ownership policy. The ownership policy states that Ratos need to understand who their stakeholders are and how they can be affected of Ratos decisions. This indicates that Ratos do consider some responsibility issues in their ownership strategies but they do not demand the companies to report on CSR issues to the board or have a systematized work with CSR issues. Ratos do not see the motivation in working with CSR as owners due to financial performance since they are very skeptical to CSR’s direct connection to return and financial performance. To the extent that Ratos work with CSR issues in their holding companies it is because they want to minimize risks and hence they have realizes that it can reduce non financial risks. However Ratos only consider the social risks meaning that business ethics and environmental risks are excluded indicating that Ratos need to develop and make their CSR policy complete in order to reduce all non financial risks, and not only the social risks and impacts. Ratos do not see the competitive advantage or possibility to be innovative as a motivation for them as owners to work with CSR issues since they don’t see any connection between CSR and innovation. Hence only one of the motivations for investors to engage in CSR issues
applies for Ratos which probably derives from Ratos way of looking at CSR, as a necessity and a moral responsibility functioning as an attribute rather than something that is integrated to the core business.

EQT has no written ownership policy and therefore neither a CSR policy that is integrated to the ownership policy. This in combination with a lack of investment policy regarding CSR issues indicates that these issues are not highly prioritized when EQT work as active owners in their holding companies. When it comes to motivations for owners to work with CSR issues EQT’s answers applies to all of the three motivations but however it doesn’t seem like EQT actually practices this in reality. Regarding financial performance EQT argues that environmental issues are important to consider due to the fact that they can be costly if not doing considered. EQT regard environmental issues to be an area where money can be saved and one example where EQT really works with this is in their holding company Munksjö where they are currently building a system that will make Munksjö self sufficient in energy. This is according to EQT a smart way to lower costs as well as it according to the theories is a way to handle environmental risks such as lack of energy in the future. It can also be seen as an action where the company is innovative in its environmental responsibility. However it is not clear how active EQT are in this project but the fact that they are aware of it at least show that the issues has been discussed at the board. Further on EQT argues that they believe that CSR can lead to innovation and that this is now becoming an important tool for companies to differentiate them selves and create competitive advantage which also are thoughts that are inline with the last theory on motivations for investors to engage in CSR issues. So the empirical findings show that EQT have realized and understands all different motivations why CSR can be beneficial for the investor to engage in but there is still no formalized work carried out to start working more actively with these issues as owners.

MSAB have a paragraph in their ownership policy regulating how they as owners should work with CSR issues which shows that these issues at least have been discussed at MSAB and that there is an awareness if only at the policy level. MSAB argues that CSR can increase a company’s value in the long term which hence is coherent with the idea that increased financial performance should be motivations for companies to work with CSR issues. Since MSAB do not see that there are any risks connected to CSR issues in their holding companies they do not see the reduction of non financial risks as a motivation to start engaging more in CSR issues as owners. Innovation through CSR is however something that MSAB believes in and they have experienced that the health debate was very beneficial for AarhusKarlshamn’s since they produce relative good fats that are not as bad as other fats. MSAB are currently trying to find new investments in companies working with renewable energy or environmental technology since they see this as a good business with development potential and hence this is a way that indicates that MSAB have realized the business case of CSR. However, even if MSAB have realized and understood the benefits that can derive from working with CSR issues as owners there is no strategy or plan on how to put this in action.
CONCLUSION AND DISCUSSION

In this chapter I will start by answering the problem statement and purpose of this study. I will continue by discussing the overall most important results of the study. I will end the chapter by presenting some ideas for future research.

The purpose of this study was to create an understanding of if/how investors work with social responsible investments by engaging in corporate social responsibility issues, mainly during the ownership of a company. Further on the study aimed to identify the differences between investment companies compared to fund companies when it comes to interest in and promotion of CSR issues as owners. Finally the study intended to create an understanding for the attitudes towards corporate social responsibility and social responsible investments from the investors’ point of view.

Do investment companies work with social responsible investments by engaging in corporate social responsibility issues when practicing their ownership in a holding company?

When answering the problem statement I will make conclusions and discuss Banco and Robur together and Ratos, EQT and MSAB together and then compare the two groups of investors with each other. The reason for doing so is that they differ a lot from each other as well as this will be the best way to answer the problem statement. I will show the overall conclusions by writing them in *cursive* format to enable the reader to more easily find this study’s main conclusions.

7.1 The fund companies- Banco and Robur

*Banco and Robur do work with SRI by engaging in CSR issues when practicing their ownership in a holding company and the awareness of these issues are high at both Banco and Robur. They have both formalized their demands on the companies and engage in CSR issues by a special SRI department that operates relatively separated from the core investment process. The fact that SRI is not yet integrated into the core investments of the companies shows that these issues are still not fully accepted by the mainstream analysts but rather seen as a necessary attribute. There is no doubt that the SRI departments would like these issues to become more integrated but they do feel that it is still hard to make the mainstream analysts interested in SRI issues.*

Both Robur and Banco have special SRI funds and the engagement in CSR issues is carried out in the companies that are included in the SRI funds. *Hence not all of the holding companies are demanded to care about CSR issues which I believe is something that Banco and Robur needs to overcome since issues such as human rights, environmental responsibility, anti corruption, decent working conditions etc. are issues that all companies need to live up to in order to have a license to operate.*

For these issues to become a natural part of all businesses large investors such as Banco and Robur have a crucial role to play. I regard this to be one of the greatest and most important responsibilities of large investors since they have ability to raise these issues and in the long run make the financial market value CSR issues. It can be argued that it is still not possible to do this, but if no investor dares to be the first and try to integrate these issues into their mainstream investment policy how will we be able to make the development speed up?
CONCLUSION AND DISCUSSION

It is about willingness to change since there is nothing indicating that CSR issues are costly. Evidence show that CSR is profitable in the long run and at least not costly in the short run, and hence there is no reason not to integrate these issues into all investments decisions. Banco and Robur both argue that they do not have the mandate from their shareholders to invest all their capital with SRI requirements. But is it really up to the shareholders to decide how Banco and Robur invest their capital? I argue that the fund companies have a responsibility to ensure that the money is invested with some basic guarantee that the investment is not supporting environmental degradation, child labor or other areas that are bad for society. In the best of worlds this should be taken for granted and be a responsibility for each investor. To illustrate what I mean I will use a simple example from the clothing industry. If comparing to buy clothes at H&M, it would be truly strange if H&M’s different collection where one collection were the clothes were produced by children and another collection that were produced with controlled and good working conditions. As a consumer/shareholder I want to be sure that what I am supporting with buying/investing will not support societal degradation, this should be a services to consumers. However, reality is a bit more complex and I am aware that it might not be possible right now but I argue that it is something that the fund companies need to keep on striving for.

This change can not happen over a night and one reason is the fact that CSR is currently becoming established in the business world and hence there might not be as many social responsible companies to invest in, and therefore it can also be seen as a way for the fund companies to ensure that the companies that are included in the SRI funds are truly working with CSR issues.

I believe that in order for the development to speed up there is a need that proactive investors such as Banco and Robur tries even harder to integrate SRI into the main stream analysis. Succeeding with this will create even bigger incentives for companies to engage in CSR issues as well as it is a great way for fund companies to help speed up the development of the financial markets appreciating of CSR issues.

Banco and Robur do engage in CSR issues as active owners but their actual possibility to influence is low due to the fact that they only hold such a small part in their holding companies. However I recognize that they have an important role to play when it comes to push other investors to work more with CSR issues. The reason for this is that Banco and Robur invest in many different companies and hence they are shareholders for investment companies such as EQT, MSAB and Ratos. For instance 1,2% of Ratos capital comes from Robur which puts Robur in a position where they have a great responsibility to make the investors change as well as they can try to make Ratos speed up on these issues in their work as owners. Doing so is also a way for Robur to be able to ensure their shareholders that Robur are truly devoted to SRI issues. This shows that the financial market is highly interconnected and small actions for one investor can raise the awareness at other investors etc.

7.2 The investment companies- Ratos, EQT and MSAB

When it comes to the more traditional investment companies that in this study are represented by Ratos, EQT and MSAB the reality differs a lot from the reality of the SRI departments at Banco and Robur. Overall I conclude that Ratos, EQT and MSAB do not work as social responsible investors by engaging in CSR issues. There are of course differences between the three investors but overall the awareness and actual engagement in CSR issues is low compared to engagement in other issues such as financial performance, strategic planning etc. where they all have clear demands on how the companies should perform and how they as owners should be an active decision maker. Ratos have integrated some CSR issues in their ownership policy and hence are more developed in these issues than MSAB or EQT. However Ratos has not understood the core idea of SRI since they
don’t work with these issues systematically with screening, engagement and follow up. Neither do they work with all CSR issues but have chosen to focus on the social responsibility and totally left out the environmental issues. This indicates that there is a lack of understanding for the SRI and that Ratos have yet not realized their importance when it comes to influencing their holding companies to work with these issues.

The main reason for these investors lack of engagement in CSR issues is due to a lack of understanding of CSR and SRI and its impacts on the holding companies and in the long run also the investors themselves. I believe that this lack of understanding and awareness derives from the fact that social, environmental and ethics issues have traditionally not been issues that investors should focus on since it in some cases have been associated to high costs. However both Ratos and MSAB have some kind of policies concerning their responsibility as owners and even if it is still on a policy level and don’t seem to be integrated into their work as owners it should be seen as a start and hopefully they will increase their work with SRI.

All of the investors claim to have some sort of social responsibility but at the same time they argue that it is up to their shareholders to decide if they should engage more in these issues. This way of discussing is contradicting since it shows that as long as the shareholders doesn’t demand them to engage more in CSR they will not and by saying so they neglect their own responsibility and hence the actual core of being a social responsible investor. The fact that SRI can be seen as an extra service to their shareholders and a way to ensure quality in their investments does not seem to be a motivation for Ratos, EQT or MSAB. I can conclude that one of the main reasons that they all explained was that they were not able to work more with these issues since that would be regarded as a betrayal to their shareholders trust in them as managers of their invested capital. However I am skeptical to this being an honest reason since many of their shareholders are actually fund companies and I do not believe that it would be something that the shareholders would regard as something negative but rather something positive.

Ratos, EQT and MSAB show a high skepticism towards the connection between CSR and financial performance which clearly is the magic key to make the investors engage in CSR issues just as they engage in other issues in their holding companies. There is no doubt that Ratos, EQT and MSAB works as active owners and have great power over the decisions and strategies of their holding companies but as long as there are no financial incentives, negative or positive, for them to engage more actively in CSR I believe that the engagement will stay on a moral and in best cases risk minimizing level in their engagement.

7.3 Differences between the fund companies and the investment companies

The main differences when it comes to interest in and promotion of CSR issues as active owners between the fund companies and the other investors is that the Banco and Robur have formalized their work with these issues, their knowledge is significant higher and the work carried out is systematized and thoroughly. Overall it can be concluded that the awareness and interest is significant higher in both Banco and Robur if compared to the other investors in this study.

Another important difference is the fact that the fund companies have relative low possibility to influence whereas the other investors have high possibility to influence since the investor own much larger part of their holding companies than Banco and Ratos. I argue that big owners such as Ratos, EQT and MSAB have an even larger responsibility for engaging and ensuring that CSR issues are taken into consideration since the size of the responsibility should to some extent be equivalent to the owner’s actual possibility to take responsibility and influence the holding company. The smaller owner such as Banco and Robur perceive their responsibility and hence their actions to fulfill this responsibility to be greater than what Ratos, EQT and MSAB do. MSAB and EQT put this responsibility on the
companies whereas Ratos argues that they have the final responsibility but they do not have any systematized work with ensuring that this responsibility is fulfilled.

Another difference is that Ratos, EQT and MSAB do not separate CSR/SRI issues, if at all considered, to a certain department but if these issues are handled it is by the mainstream analysts. This way of working is good and comparing to Banco and Robur it can be argued that if these issues were more formalized at Ratos, EQT and MSAB their way of working with CSR/SRI issues would mean that they became important in the mainstream investment process.

Finally another difference is that the fund companies argue that business play an important role to meet many of the challenges that we are facing today and makes these challenges into business opportunities whereas mainly Ratos but to some extent MSAB perceive that this is the responsibility of states rather than something that could or should also be handled by the private sector. This indicate that the investment companies do not really see that there can be business opportunities in these challenges and neither do they show that they might need to do something in order for the development of the world to change, since they also have an interest in the world being a good place to do business in. But it seems like this is to much out of the box for these very traditional and self confident investment companies and they motivate it by stating that “it is not possible since it is not a part of their strategy”, which also shows that if the fact that it is not part of the strategy is regarded to be a good argument for not engaging in these issues I believe that there is no great innovation to be expected from these investors. In order for these investors to make it a part of their strategy, which is to create 20% return each year, there is a need to prove that these issues do pay off and then hopefully it can slowly grow and become an equal important part of future investments.

7.4 Scientific contribution

Since this is a master thesis with a golden middle road approach it is expected and crucial that the study contributes with some new areas of research and a clear scientific benefit. To make it clear I will in the following section show the reader the main conclusions and scientific contributions of this study.

- **Lack of demand and mandate from shareholders:**
  This conclusion is applicable on all of the five companies included in this study, but in different ways. For the fund companies the lack of mandate and demand from shareholders for them to engage more in CSR issues as active owners is one of the major reasons why Banco and Robur only invest a minor part of the total capital by SRI requirements. Ratos, EQT and MSAB all argue that in order for them to start engaging more in CSR issues as active owners they need to understand that this is something that their shareholders demand them to do. They all state that the shareholders have the power and the investment companies argue that they are primarily responsible to their shareholders.

- **Great differences between fund companies and investment companies:**
  There are great differences when it comes to knowledge and interest in engaging in CSR issues as active owners and the fund companies are far more developed and show a greater willingness to change and make a contribution in these issues. The main difference is that Robur and Banco both work with these issues since it makes business sense whereas the investment company Ratos to some extent equal CSR to charity. Overall the fund companies have reached further in recognizing the
business potential whereas the investment companies now are starting to see CSR as a way to minimize risks as well as some kind of moral responsibility.

- **Lack of acceptance from the mainstream analyst:**
  Another clear conclusion is that there is still a great lack of acceptance for CSR issues from the mainstream analysts and this is an issue that exists at all of the five investors included in this study. When it comes to the fund companies the SRI department feels that SRI issues are still not fully accepted by the mainstream analysts. The investment companies represent the “mainstream analysts” and hence the results from this study show that there is a lack of acceptance that CSR issues should be a central part of the analysis. There is no doubt that in order for CSR issues to become truly important there is a need to find proof that there is a clear connection between CSR and profitability.

- **Holding companies are finally responsible:**
  There are also tendencies among the investment companies to claim that the holding companies are more capable and hence have the final responsibility for CSR issues. They as owners can not and do not want to influence in these issues since they regard this to be some sort of micromanagement. Since they as active owners are truly engaged and micromanage in other issues such as financial performance and strategic planning it can be concluded that CSR issues are not regarded equally important as these issues.

- **Understanding exists but there is little action within the area of CSR and its connection to innovation:**
  Only Banco has used the business potential in being a responsible investor and doing so by introducing a carbon neutral fund. However most of the investors, except Ratos, show understanding for the business opportunities that can be created by investing in i.e. environmental technique and renewable energy etc. Robur, EQT and MSAB are currently looking for prospects within the area of sustainable business development. The reason for doing so is that they all believe that these will be successful investments in the future with high growth potential.

### 7.5 Ideas for future research

One of the topics that I have not been able to integrate in this research is how the holding companies perceive their owners engagement in CSR issues. This would be interesting since it is a way to test the results from this study and get a different perspective on what the companies think of their owners’ engagement in CSR issues and if the management would like their owners to be more engaged in CSR issues. Another interesting topic would be to investigate the same topic but by talking to shareholders of the investment companies and fund companies which would require a quantitative method. The results of this study indicate that in order for the investors to engage more in CSR issues they need to get an approval from their shareholders and hence it would be interesting to investigate their shareholders view. Due to the fact that the studied topic is a pretty new phenomenon among traditional investment companies it would be interesting to make almost the same study in five or ten years and see what has changed in these companies and their attitudes towards and work as active owners in CSR issues.
Finally another researchable topic is how the new "mega risks" are affecting investors and their due diligence processes, it would be truly interesting to see how investors consider for instance climate change or the future lack of oil as a risks when investing in industries or countries where the risks of these issues are high and hence might affect the return on the investment.
8 CRITERIA OF TRUTH

In the last chapter I will give the reader some necessary information about the criteria of truth of this study. I have chosen to include four criteria that I find appropriate for this study; validity, inter subjectivity, practical applicability and finally the systematic used when collecting and analyzing empirical data.

Since my study was conducted with the purpose to create a new theory or new knowledge the criteria of truth applicable for my study is not the same as for a study that is focused on proving an already existing theory. I have chosen to not include criteria such as reliability since I do not know if anyone will conduct this exact same study again and hence this criterion is not interesting. I have rather chosen to use criteria like validity, inter subjectivity, practical applicability and the systematic used when collecting and analyzing the empirical data since these criteria better measures my study’s criteria of truth.

8.1 Validity

Validity measures if the researcher has included enough respondents so that the developed theory has been tested thoroughly. It is also crucial to achieve theoretical saturation so that a new data collection will not lead to great changes in the empirical findings. When choosing respondents on the fund companies I choose the ones that were working with SRI issues and hence I believe that these respondents had the knowledge to answer my questions. At Ratos, EQT and MSAB I did not have the ability to choose since they decided who I was to interview but I believe that the persons that I interviewed at Ratos and MSAB were the most suitable whereas I am not sure if it was the right person to interview at EQT. I am also aware that it would have been good to include some more investment companies but since it was very hard to get interviews with more investment companies this was not achievable. Due to these two reasons I can not fully argue for theoretical saturation or validity in this study but I do not believe that including another investment company or interviewing another person at EQT would have made noticeable difference on the result of the study.

8.2 Inter subjectivity

Inter subjectivity deals with the issues of how the researcher interprets the studied reality and if this interpretation is coherent with how the respondents view the reality and hence it is crucial that the respondents feel that their answers have been correctly retold by the researcher. To achieve inter subjectivity one common way is to let the respondents read through and comment on the interpretation made by the researcher. I have chosen to send the empirical findings to the respondents who all have approved on what I have written from the interviews. The researcher needs to be aware of the difficulties of interpreting the reality without being influenced by the respondents view. I have tried to trust my own judgments when interpreting and analyzing the empirical findings and not been too influenced by the respondents, and hence I argue that I have reached a decent level of inter subjectivity in this study.

130 Johansson Lindfors, 1993,165
131 Ibid.
132 Ibid
133 Arbnor och Bjerke, 1994, 268
134 Johansson Lindfors, 1993, 167
135 Ibid
8.3 Practical applicability

This criterion measures how useful and applicable the results of a study is in reality. To be able to measure the practical applicability of a study it needs to be tried on the reality that it describes, but however many researchers argues that it is not possible to achieve a practical applicability in studies that are inductive or following the golden middle road. The applicability in this kind of studies should rather measure the results usefulness and if the results can be used to understand similar situations. I do believe that the results of my study can be used to understand other investments companies and how they work with SRI by engaging as active owners in CSR issues. The results might differ but I believe that the results can be useful to give future researchers within this field knowledge before approaching the empirical reality, which is something that I could not find before I started to make this study but that would have helped. Hence I argue that the results of this study can be applicable on a similar empirical reality and by using my study I believe that the researcher will get an understanding for the reality he / she is about to study. I argue that the practical applicability hence is as high as it can get in this study.

8.4 Systematic data collection and interpreting of empirical findings

This criteria measures and review the whole research process since it is important when estimating its reliability. Measuring these criteria is done by looking at the level of systematic used when conducting the empirical research, in this study the interviews, in order to not miss out on important information that could have affected the results of the study. When conducting my interviews I used an interview guide as a base during the interviews but I tried to give the respondent possibility to talk relatively independent and I was not locked to the interview guide during the interviews. This way of working has enabled me to get a lot of information within the area of study. When listening to the recorded interviews I first wrote down the whole interview and then I used a structure to choose which information that was interesting for my study and I divided the info into three different areas that were based on the interview guide. I have chosen to use the same headings in the analysis as in the empirical chapter and then analyzed the collected data with appropriate theories. I believe that I have had a relative high systematic during the data collection which has given me information that has been useful when interpreting the data that is the base for the results of this study.

136 Johansson Lindfors 1993, 165
137 Ibid.
138 Ibid.
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9.5 Respondents

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Anna Karin Celsing, Head of Information, Ratos 2007-04-25

Anita Lindberg, SRI Analyst, Robur 2007-05-04

Helena Ohlander, SRI Analyst, Banco 2007-04-20

Ulrik Svensson, CEO, MSAB 2007-04-23
APPENDIX 1

INTERVIEW GUIDE

Background and the strategy of the business

1. What investment strategies does the company work according to?

2. What parts are extra important before investing in a company?

3. What parts are important when evaluating the development of the investments? How would you define an excellent investment? Size, risk, return, industry etc?

Work with direct impacts (CSR) and indirect impacts (SRI)

4. Have your company signed the UN PRI? Why/why not?

5. How do you regard you responsibility as a fund company/investment company? Difficulties/opportunities?

6. What CSR risks does your company directly pose on society?

7. Are there policies regulating the CSR risks? How are you working with implementing and follow up on the policy?

8. Why are you working with CSR within the company?

9. On which level are you working with these issues? Is there a CSR department?

10. Are CSR issues discussed at top management level?

11. Do you carry out a so called screening before each investment? Why/ why not?

12. Do you as owners demand/encourage your holding companies to have a CSR policy and work actively with CSR issues? How are you as owners following up on these issues?

13. What kind of CSR demands do you put on the companies you invest in? Why do you have these demands?

Attitudes to CSR/SRI

14. How do you consider the responsibility of business? For what purpose do business exist?

15. Do you believe that CSR can open up for new business opportunities and lead to competitive advantage?

16. Is CSR something that increases a company’s value? Motivate!

17. What is your role as owners to make business engage even more in CSR issues? How can you as investors work with these issues?

18. Could the investors valuing of CSR lead to an increased incentive for business to care more about CSR issues?
20. How should companies work with CSR issues? Risk minimizing, building the brand or business development and innovation?

**Active ownership and engagement in CSR issues**

21. What issues are prioritized when you work as active owners? How much can you influence a company’s strategies and decisions?

22. What extra value is created by working as active owners?

23. Do you have any ownership policy that regulates how you work as active owners?

24. How would you as owners’ ac if one of your holding companies is not working as you wish with CSR issues?

25. Do you work by influencing the companies to work proactively with CSR issues? How is this done?

26. How do you as owners regard a company working actively with CSR issues?

27. What are your possibilities to increase investments within the following highly important challenges that the world is facing today?

- Sustainable innovations (products and services that lead to a positive societal development. I.e. innovations that can reduce water usage, biofuel as an alternative to the oil etc.
- Investing in micro finance through a micro finance fund.
- Climate change by investing in renewable energy solutions, i.e. solar and wind power.
- Business with the base of the pyramid (BOP) by investing in companies and entrepreneurs that develop products and services to people that are currently not part of the “normal market”.