The Implementation of United Nation´s Principles for Responsible Investments among Swedish Investors

A paradigm shift within reach?

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“There are two spiritual dangers in not owning a farm. One is the danger of supposing that breakfast comes from the grocery, and the other that heat comes from the furnace”

Aldo Leopold, *Sand County Almanac*
Abstract

Responsible Investments is currently paving new paths in the financial industry. United Nation´s Principles for Responsible Investment (UN PRI) has in four years attracted over 700 signatories in 36 countries. The principles are voluntary and kept in an open non-governing structure. The lack of formal definitions and the actual value or effects of the UN PRI adoption is difficult to assess. Many researchers today are involved in attempts to measure the financial performance of responsible investments. This study takes a different stand point and investigates the motivation for joining UN PRI, how the implementation has been carried out and what the effects are, by the use of a case study. The six largest investors in terms of asset under management (AUM) among the Swedish UN PRI signatories were interviewed, and a qualitative based semi structured interview was used. A structural analysis was carried out on the results. Institutional Theory was used to explain the motivation for joining UN PRI and served as the theoretical framework. Interpretation of UN PRI´s implementation differed in some instances to a large degree between the respondents. Transparency was uncovered as a major success factor to the investors in support of decision making. All interviewed signatories had developed their own way of working with UN PRI in terms of organization, priorities and the attempts to measure its effects. There is still a great need for more knowledge around how these principles shall be implemented successfully and become part of mainstream investments.

The target audience for this paper is academics or business professionals with an interest in why and how UN´s principles for responsible investments are adopted by the financial industry.

Key words: Effects, Implementation, Influences, Motivation, Social Responsible Investment, Swedish Investors, United Nations Principles for Responsible Investments
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1. Introduction

Already in 1996, the World Business Council for Sustainable development (WBCSD) saw the financial industry as a leader for Sustainable development* (Schmidheiny and Zorraquín, 1996 and Peeters, 2003) due to its central role in business and not least its responsibility in terms of handling financial transactions, investments and credits.

Today, fourteen years later there are several initiatives within the financial industry addressing sustainable development through the adoption of ethical investments and Social Responsible Investments Principles or code of conducts which are commonly referred to by the literature (Sparkes, 2001). Established principles for responsible investments are voluntary approaches which address Environmental, Social and Governance (ESG) issues. Responsible investment principles have mainly been developed by the financial industry itself or in collaboration with Non-Governmental Organizations (NGO´s) and large public institutions such as the United Nations (Bengtsson, 2007).

Socially Responsible Investments (SRI) has been described as “a set of approaches which includes social or ethical goals or constraints as well as more conventional criteria in decisions over whether to acquire, hold or dispose of a particular investment” (Cowton, 1999: 60). In support of SRI, Sjöström (2009) concludes in her doctoral thesis that SRI has a potential to make a difference to society by the fact that shareholders can act as norm entrepreneurs and norm promoters and overarch the disparate institutional logics of corporations. This is achieved by shareholder influences over environmental and social aspects of a corporation.

United Nation´s six Principles for Responsible Investment (UN PRI) is a voluntary approach and one attempt to address environmental, social and governance issues in the financial industry.

*The Brundtland Commission's report defined sustainable development as "development which meets the needs of current generations without compromising the ability of future generations to meet their own needs". The concept supports strong economic and social development, in particular for people with a low standard of living.
At the same time it underlines the importance of protecting the natural resource base and the environment.
Economic and social well-being cannot be improved with measures that destroy the environment.
Intergenerational solidarity is also crucial: all development has to take into account its impact on the opportunities for future generations.
As in so many other corporate contexts; TLA – Three Letter Acronyms are also present in the area of responsible investments. A list of abbreviations can be found in appendix: A.

UN PRI was established in 2006 with the aim to create a common set of relatively open principles which addresses more than financial returns and with a strong focus on sustainability issues by including governance, social and environmental aspects into investment decisions. UN PRI has in less than four years managed to attract more than 700 signatories worldwide with total assets under management of more than USD 18 Trillion (18,000,000,000,000) in 36 different countries according to its official website.

With the aim of UN PRI, it is important to investigate what are the signatories’ motives for joining. How is the work around the principles organized and put into practice? Perhaps most importantly, what are the actual effects of its implementation? These three main questions are set out to be answered. In addition to the research questions, a framework of other related key concepts adjacent to that of SRI are introduced. The reason for this is that it is important to understand SRI in its context and how it interacts with or relates to other initiatives supporting sustainable development at large.

Given that these principles are voluntary and open, it is in order to question what consequences there are by signing on UN PRI. One perceived challenge with voluntary approaches is that they are fairly easy to create and sign on, but can be difficult to implement and exercise in daily operations (Bondy, Matten and Moon, 2004). Voluntary standards can also easily lead to so called “Green washing”. The term “Green washing” is used when companies disingenuously market products and policies in an environmentally friendly manner, e.g. presenting cost cuts as reductions in use of resources. The fact that these principles are open in their characteristics may also lead to very different interpretations of what the work actually entails. This makes the actual influences and effects even more difficult to assess, compare and quantify as there is no formal standard in place today for measuring the values of such dimensions of a corporation.

UN PRI is based on six founding principles which states that signatories i.e. members shall include ESG issues into analysis, decisions and governance of investments. Further, signatories shall exercise active ownership and promote increased transparency by the companies in which they invest. Signatories are also expected to promote the adoption of UN PRI in the financial industry and produce annual progress reports on the work carried out
under the umbrella of UN PRI. There are three membership categories within UN PRI; Investment Managers, Asset owners and Professional Service Partners. PRI thereby cover most parts of the financial services industry (www.unpri.org, Retrieved May 12, 2010).

There is an established truth within most corporations today, which states that you cannot change or improve what you cannot measure the effects of (Fullan, 2001). There seems to be great challenges involved when measuring responsible investment’s actual affects not only financially, but in terms of social and environmental benefits as opposed to mainstream investments i.e. those that only monitor financial returns (Sjöström, 2009). The reasons behind these challenges are several: it is a complex task to translate long term social and environmental values into a financial quarterly report. New measurements are required to; 1) measure the financial benefit of social and environmental welfare 2) address difficulties with quantifying relevant comparable data and 3) realize that we are now living in a new era where relevant long term benchmarks are missing (Horwitz, 2009). There are also other implications attached when an organization attempts to measure the effects of for example Corporate Social Responsibility (CSR) activities. The presence/notion of sustainable development and CSR is inherently difficult to measure in the flow of capital because it may involve many different areas both internally and externally of a corporation; working conditions, product development, production, marketing or communication (May, Cheney and Roper, 2007).

Swedish Companies have a comparatively long history of integrating ESG issues into corporate strategy. The environmental and social regulations have fostered an operating environment where these issues are pro actively addressed. Among Swedish Executives the inclusion of ESG issues is perceived to be inherent in the way of doing business (Morsing, Midttun and Palmås, 2007). Sweden has lost most of its manual labor intense industries to other countries, which has led to a skilled work force with developed working conditions (Foley, 2003).
**Aim of the thesis**
This thesis will explore why and how major financial institutions in Sweden have implemented UN PRI and what the influences and effects have been after its implementation.

**Research questions**
The following three main questions were developed in order to find relevant answers in support of the aim outlined above.

1. What are the motives for adopting UN PRI? This question seeks to understand what the driving forces are for becoming a signatory.
2. How is UN PRI implemented? This question investigates what are the priorities and responsibilities within UN PRI and how the different principles are put into practice and included into business operations among the signatories.
3. What, if any, are the actual influences and effects of working with UN PRI? This question will investigate what, if any are the effects after its implementation.

**Thesis outline**
This thesis has the following structure and outline;

Chapter 1: Provides the reader with background, problem statement and research questions

Chapter 2: Elaborates on the chosen theoretical framework

Chapter 3: Introduces key concepts

Chapter 4: Introduces the methodological framework

Chapter 5: Presents the results of the case study

Chapter 6: Discussion on the results

Chapter 7: Conclusions on this study
2. Theoretical framework

Institutional Theory
An institution can as explained by Johansson (2002), be described as an established and organized procedure or structure, and built up by more or less taken for granted informal and formal, conscious and unconscious rules.

Institutional theory is commonly used by academics today in the pursuit of explaining the motivation for investors to act responsibly in investment activities (Sjöström, 2009 and de Kleijn, 2006). As with corporate strategy in general there are several different theoretical paths presented within corporate sustainability. As Sharma and Starik (2002) explain, long term competitiveness and performance are present in the research of corporate sustainability and corporate strategy. Many influences by different strategic efforts have built up today’s literature around sustainability. Examples are; stake holder theory, resource based view of the firm and competitive strategy (Sjöström, 2009 and de Kleijn, 2006). This paper encompasses institutional theory because of its focus on the interaction between an organization and its surrounding environment which creates pressures for change. These forces of change come from society at large, competition and different interest groups. According to DiMaggio and Powell (1983) organizational change is not to a large extent forced by competition or efficiency, but merely based on other processes which makes organizations homogeneous without explicit focus on efficiency. In Di Maggio and Powell (1983), they also state that; “Once a set of organizations emerges as a field, a paradox arises: rational actors make their organizations increasingly similar as they try to change them”. Further, they elaborate on that organizational change involves formal structures, organizational culture, goals, programs and mission.

Institutional theory explains organizational behavior that is not only based on efficiency or financial logic, but merely includes sociological aspects such as norms, legitimacy, expectancy and responsibility (Johansson, 2002). The latter is of course central in terms of investing responsibly as it implies that the investor is taking on increased responsibility for environmental and social issues in the companies in which they invest. The role of responsibility is also connected to what is expected of an organization and the expectation of doing what is perceived to be right in order to obtain legitimacy (Johansson, 2002).

An early version of institutional theory explains institutionalization as a process defined by when people come to share a common definition on social reality (Scott, 1987). Another
concept has evolved which states that institutionalization occurs due to multiple different aspects as opposed to a given process (Scott, 1987). Therefore, conformity is not necessarily based on common institutional beliefs creating isomorphism (homogeneity) but merely based on several other processes, such as norms, expectations, internal and external influences of an organization.

One way to describe homogeneity is isomorphism. According to Hawley as explained in DiMaggio and Powell (1983), isomorphism is a process which influences one group in a wider population in order to mirror other groups with similar operating conditions in its surrounding environment. Isomorphism has relevance to the research questions, when analyzing the responses on what has motivated the signatories to join and how UN PRI is implemented. Both Meyer and Rowan (1977) and Fennel (1980) argue that there are two kinds of isomorphism: competitive and institutional. Competitive isomorphism is explained as the logic behind the focus on niche change, market competition and measures of fitness. Competitive isomorphism is according to Di Maggio and Powell (1983) mainly appropriate in the fields of free competition. This was also observed by Max Weber when describing the bureaucratization process* which to some extent is clarified by competitive isomorphism. However, Di Maggio and Powell (1983) explain a need for in addition to competitive isomorphism, the use of the perspective of institutional isomorphism, as presented by Kanter (1972) on how communities are forced to accommodate for its surrounding environment. Customers and resources are not the only focus of competition among organizations. The economic and social wellbeing as well as political influence and legitimacy are also important areas of competition according to Aldrich (1979) as described in DiMaggio and Powell’s *The Iron Cage Revisited*. Political and behavioral aspects can well be explained by Institutional isomorphism and is therefore a helpful aid when it comes to understanding organizations.

Drivers for Isomorphic Institutional Changed
In Di Maggio and Powell (1983) and Johansson (2002) they outline three main drivers for institutional isomorphic change: coercive, mimetic and normative.


“In The Protestant Ethic and the Spirit of Capitalism, Max Weber warned that the rationalist spirit ushered in by asceticism had achieved a momentum of its own and that, under capitalism, the rationalist order had become an iron cage in which humanity was, save for the possibility of prophetic revival, imprisoned “perhaps until the last ton of fossilized coal is burnt” (Weber, 1952:1181-82)”. 
Coercive is described as the pressure a firm may experience as a force, invitation or persuasion to collusion. This may occur when organization experience both informal and formal pressure for change from other organizations which they ultimately depend upon and when cultural expectations become strong in an organization’s context. Coercive can also be enforced by e.g. government mandate. All these forces impose a change in support of obtaining legitimacy (DiMaggio and Powell, 1983 and Johansson, 2002).

In contrast to coercive, mimetic processes claim that it is the role of uncertainty that dominates reasons for imitation. When goals are unclear and there is a lack of organizational understanding within uncertain environments, then an organization mimic itself on other organizations in response to uncertainty.

Normative pressure, the third driver involves the explanation that actors do not only act in their own interest, but merely doing what is expected of them. This is presented in the example of e.g. recruitment, where key individuals and future managers are recruited from the same universities. They are selected by a mutual process based on attributes closely linked to certain values and are likely to view procedures, policies and structures in a sanctioned legitimate and normative way. Hence, they will base their decisions in a mutual way and on common grounds.

This interpretation is also supported by the findings of Scott (2001), who presents three founding pillars and has a similar interpretation of isomorphic forces for change; regulative, normative and cognitive. Regulative implies that individuals agree that institutions limits and regulates behavior. Focus is on rule creation, surveillance and sanctions. Normative involves the forces in social life, which in this sense is governed by pre-assumptions on goals that ought to be achieved and by what means it can be achieved by legitimate ways of working. It involves rights and obligations in order to fulfill expected obligations. Cognitive is based on the knowledgebase that actors follows rules because they are taken for granted and the actors involved are not prepared to act differently.

How, when and if an organization responds to these pressures is dependent of the connections and characteristics relevant to that organization (DiMaggio and Powell, 1983 and Johansson, 2002).
3. **Key concepts**
In the area of responsible investments there are numerous concepts and related initiatives. In support of the fact that most UN PRI signatories are also members of multiple initiatives, a selection of SRI related key concepts and definitions are presented. The goal is to contextualize the areas adjacent to SRI. The concepts introduced here are; SRI, ESG, UN PRI, CSR, responsibility and triple bottom line reporting. Over the years other initiatives have also developed in support of addressing sustainability and/or ESG issues in the corporate world. Brief overviews of a limited number of other relevant initiatives are presented to the reader in appendix: H. The purpose is to demonstrate the width of activities now going on in the world in support of sustainable development.

**Socially Responsible Investment**
In order to provide a broader understanding on how principles for socially responsible investing are implemented, an introduction to SRI and what it entails is needed. Responsible investments are believed to have its origin in the church. The first known responsible fund in Sweden was introduced in 1965 by the Temperance movement and Baptist Church (Bengtsson, 2007). In today’s world a responsible investment can be anything from a niche fund with very explicit investment criteria (Bengtsson, 2007), excluding for example arms companies, a clean tech fund investing in renewable energy sources or even a so called charity fund, which gives a percentage of its returns to charity. There are many different interpretations of what a responsible investment is (Déjean, Gond and Leca, 2004). In order to clarify and describe, this section will elaborate on the most common ways of working with responsible investments.

There are in general four themes within responsible investments;

1. Positive screening which means that investors try to identify and select the best performing companies to invest in, in terms of human rights and or environmental aspects. Typically these are companies that are perceived to be class-leaders in their industry with respect to environmental and or social issues.
2. Negative screening is when investors blacklist and exclude certain companies or industries. Typically this involves companies in the tobacco, gambling and weapons industry. But it can also involve less controversial companies, where the company has human rights or environmental issues that are perceived to be handled unsatisfactorily. Such exclusions are normally done with companies that does not recognize nor follow international agreements such as Human Rights, ILO, UN Global Compact and OECD
Guide lines for multinational corporations. Many investors have a clear and set investment policy, which normally excludes controversial companies manufacturing for example cluster bombs and land mines. Such policies normally also have a limitation on investments in companies where a certain percentage or an amount of money of that company’s revenue can be derived from e.g. tobacco or weapons. This is also referred to as norm based screening.

3. Active ownership is when an investor seeks to have an active dialogue and tries to influence and improve a potentially good investment, but with environmental and/or human rights issues. Active owners attend annual general meetings and exercise their power through the use of voting on propositions. Active owners can also depart as owners if sufficient progress is not made.

4. Niche funds as mentioned in the introduction with specific investment criteria. They can be independent but may also include listed shares on various indexes which focus on sustainability such as DJSI, FTSE4GOOD and Nasdaq OMX GES.

Responsible investors do use a combination of themes one to three above when including ESG issues into investment decisions.

**Environmental, Social and Governance - ESG**

Behind the mutual term ESG there are three different pillars. Firstly, environmental issues typically concerns climate change, risks involved with companies handling hazardous goods or a company’s natural resource utilization. This may also include the use of environmental management systems such as ISO 14001. Secondly, social issues mainly concern human or labor rights issues and working conditions. It may take the form of occupational health and safety policies or standards like OHSAS18001. Thirdly, governance issues are related to such things a corporate steering, re-numeration packages, conducting annual general meetings, transparency in reporting and the general management of a company.

**Corporate Social Responsibility**

This paper uses one definition from the Harvard Kennedy School on what Corporate Social Responsibility (CSR) is:

“We define corporate social responsibility strategically. Corporate social responsibility encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres
of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm”.

Source: (www.hks.harvard.edu/m-rceb/CSRI/init_define.html , Retrieved May 8, 2010)

This definition is deemed appropriate because it goes beyond philanthropy and includes the creation of revenues. A wide set of stakeholders connected to a corporation is also included.

United Nation’s Principles for Responsible Investments
The United Nations Secretary-General invited in 2005 some of the largest institutional investors worldwide to join an initiative aimed at developing a common set of principles to be applied for responsible investments. People from 20 institutional investors in 12 different countries formed a group and were given the ownership for the development of UN PRI. In addition to this group, some 70 people participated as experts from multiple categories: civil society, UN Global Compact, United Nations Environment Program (UNEP), governmental organizations and academia.

The principles were developed by large institutional investors with long term investment cycles, and with a large spread of different investments in their portfolios. UN PRI is though not limited to institutional investors, but are equally applicable for investment managers and professional service providers. PRI is meant to work as common standard for investors who want to fulfill their fiduciary responsibility and address ESG issues. PRI is not meant to be interpreted as definite rules, but are merely aiming at providing guidance on what can be done in order to improve decision making processes and exercising ownership in the light of developing practices for ESG issues. Signatories of PRI are meant to lead the way in the investment industry. It is not only a way to increase long term profits but also an attempt to closer align business and societal objectives in general.
Members of UN PRI are also offered support with the implementation in four main ways:

1. The use of **UN PRI Clearing House**, which is an on-line web-based collaboration tool.
2. The **UN PRI in Practice Blog**, which is a knowledgebase containing book reviews and issue briefs.
3. The **Annual UN PRI Meeting** which help build networks and collaboration among its signatories.
4. The **UN PRI Report and Assessment Tool** which assists the reporting on the implementation progress, lessons learned and the avoidance of barriers for implementation.

**PRI membership categories**
There are three different types of membership categories within PRI;

**Asset owner**
Organizations that represent end-asset owners who hold long-term retirement savings, insurance and other assets. Examples include pension funds, government reserve funds, foundations, endowments, insurance and reinsurance companies and depository organizations. This is the principal category of signatory.

**Investment manager**
Investment management companies that serve an institutional and/or retail market and manage assets as a third-party provider. Examples of investment managers are: Public and private banks, Savings institutions and broker firms.

**Professional service partner**
Organizations that offer products or services to asset owners or investment managers. Such as consultancies providing services around screening of assets in portfolios and the analyses of specific companies and industries. Although such professional service partners are not stewards or managers of assets in their own right, they do have considerable influence over how their clients address ESG issues.

Despite different categories, all six principles (as presented below) are the same for each member category.
The Six Principles for Responsible Investment

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4 We will promote acceptance and implementation of the Principles within the investment industry.
5 We will work together to enhance our effectiveness in implementing the Principles.
6 We will each report on our activities and progress towards implementing the Principles.

Source: www.unpri.org, Retrieved January 18, 2010

The role of responsibility
Investments can be seen as the energy in economy (Sholtens, 2006). Therefore, financial institutions can be seen as key actors to any corporation in terms of major access to influences on capital flows. Closely linked to responsible investments is the question of responsibility. It is by default difficult to assign responsibility to a corporation due to its legal structure (Verhane, 2007). This is because the incorporation leads to the fact that a business is a legal entity with limited liability, which is one of the main reasons for setting up a company. Corporate power is de-coupled from physical persons who have benefits such as that it hinders the possibility of legally claiming personal responsibility of a physical person acting on behalf of a company (Verhane, 2007). Therefore, if a physical person is not carrying responsibility in the case of investing responsibly, who is?

Triple bottom line reporting
In terms of transparency, it most commonly implemented by the use of Triple Bottom Line (TBL) reporting. This includes a combined report on environmental, social and financial facts. Within UN PRI it is referred to as seeking disclosure on ESG issues. The most widely adopted standard today is perhaps Global Reporting Initiative (www.globalreporting.org). This is one
example of a more comprehensive reporting approach adopted by corporations in order to increase transparency and address sustainable development. However, there are limitations to such reports, as they do not disclose whether a company is good or bad at something, it merely represents a picture of the business as is. One should though take into account the value of evaluating a company in multiple perspectives, such as socially and environmentally. A TBL report certainly provides a broader understanding of a Company’s pre-conditions in its market place than a sole financial statement does (Larsson and Ljungdahl, 2008).
4. Methodology

Research method
In the lack of extensive available research on the implementation of SRI principles, the method of interviewing was used to obtain new and relevant perspectives on the adoption level of UN PRI and its effects as described in the research questions. When asking a “how” question, according to Kvale and Brinkmann (2009), Yin (2009) and Patel and Davidson (2003), the case study methodology is appropriate for exploratory research and for providing explanations. This motivates the use of a qualitative case study.

Literature search
In my pursuit to find sources of information on the topic of socially responsible investments, I have relied heavily on the internet. Sources were found by literature searches on the internet and within academic data bases. The most frequently used data bases on the internet have been; Google Scholar, JSTOR, Wiley Interscience, Science Direct, Springer Link, Inderscience and other sources such as United Nations official websites on related topics. A critical stand-point to these sources has been applied in support of (Booth, Colomb and Williams 2008) guidelines on using electronic data sources.

It is inherently difficult and challenging to cover all sources of data when embarking on a journey of a literature review on the internet. This implies that some sources of information may not have been included.

Case Study
In order to understand what the motivation for joining, how a company implements principles such as UN PRI and what the effects are, a qualitative based semi-structured interview is used to find answers to the set research questions. For the interviews a tape recorder was used with the consent of the respondent. The use of a tape recorder proved useful when transcribing and analyzing the results, because it provides efficient use of the time for interviews and gives the exact statements of the respondents. One limitation with transcribing results is that it requires a lot of time per interview. The interviews were made up by open semi structured questions i.e. a planned and flexible interview with the aim to receive description by the respondent’s view of the world (Kvale and Brinkmann, 2009). There was also a set of closed questions in order to quantify relevant data such as length of time with UN PRI, membership category and the use of UN PRI implementation tools.
Selection of companies
The selection of companies was made by ranking all 23 PRI signatories in Sweden in relation to their capital volume of assets under management as reported in financial statements as of December 31st, 2009. The signatories are divided as follows; 10 Asset Owners, 11 Investment Managers and two Professional Service Providers. Total Asset under Management (AUM) has been the governing factor for selecting companies as it appears relevant to focus where the vast majority of capital is managed.

Effectively there were 21 companies to choose from as two (GES Investment Services and Ethix) are professional services providers are not acting as investors. During the course of selecting and researching potential companies, it turned out that one company was bought by another signatory (Banco Fonder acquired by Swedbank Robur) and two different members were effectively one as they had merged (DnB Nor and Carlsson). A third company had two divisions as members (Nordea Fonder and Nordea Investment Management).

Six companies were selected, the top three from Asset Owners and Investment Managers in terms of total volume of AUM. These six companies represent approximately 75% of all UN PRI AUM in Sweden. In the category of Investment Managers 81% or approx 355 billion Euros of AUM are covered. For Asset Owners 56% or approx 80 billion Euros of AUM is included.

The following six companies make up the case study:

1. AMF Pensionsförsäkrings AB (Asset owner)
2. Folksam (Asset owner)
3. Nordea (Investment Manager)
4. SEB (Investment Manager)
5. SWEDBANK Robur (Investment Manager)
6. AP3, Third State Pension Fund (Asset owner)

Further information about each company is presented in Appendix B

The main reason for not going farther with Asset Owners are that the next three organizations in line (within the AUM ranking) are all state pension funds which all work in a similar way with SRI as the selected state pension fund AP3. They are all almost equal in size, governed by a common Governmental Directive, they share a common Ethical Council and they work closely together on ESG issues. So, there would have been a limited added value of interviewing additional state pension funds.
Conducting the interviews
In preparation for the interviews, the responding company’s websites and annual reports were studied in order to gain an understanding of their position in the market and level of communication around responsible investments. On all occasions I met with the Manager or Director responsible for SRI or ESG. All interviews were carried out at the office of the respondent. Each interview lasted between 50 – 70 minutes. The respondents were sent the questionnaire in advance in order to prepare. The questionnaire is presented in Appendix C. The interviews were transcribed within one week after the interview took place.

All interviews were carried out in Swedish. The presented questions were presented in both Swedish and English. After transcribing all results in Swedish, the final results were translated into English when transferred into this thesis.

There are limitations when recording interviews. Recording is valuable but did require approval, all subjects agreed to be recorded. However, most respondents tend to speak more freely without recording (Patel and Davidson, 2003).

All respondents agreed to have their company name published in this report. Three respondents did ask to have direct citations approved before being included in the final report. All direct citations have been approved by the respondents.

Analyses of the interview results
In order to organize the texts from the interviews, a qualitative analyses method has been used with the focus on meaning condensation. The analyses were carried out in five steps according to Kvale and Brinkmann (2009):

1. The researcher reads through the whole text in order to gain an understanding and overview of the texts.
2. Establishment of the natural meaning condensation units, as expressed by the respondents in the interviews.
3. Themes are formulated for the different natural meaning condensation units based on the researcher’s perception.
4. Questions are posed to the different meaning units with the aim of the research questions in mind.
5. All core units of the interviews are intertwined in a descriptive statement, which is presented in the results.
**Methodological considerations**

The questionnaire was constructed based on my findings in the literature combined with my pre understanding of this field. The questionnaire was not tested prior to the interviews. No other validity tested questionnaire has been found.

In both Boiral (2003) and Déjean et al (2004) it was established that interviewees where more inclined to produce better and more informal answers once they had left their employment with the company. One of the respondents left the company shortly after the interview.

This paper uses a qualitative approach, and the number of cases studied has been limited to six companies (covering 75% of all assets under UN PRI as of December 31st, 2009), three from each category out of 21 in total. Therefore precautions’ shall be applied as there is limited data to support general qualitative conclusions on other UN PRI signatories.

Most of the respondents in this study are members or participants of multiple initiatives in the SRI domain. This may of course have influenced their way of answering the questions. They were not only answering from a UN PRI perspective, but from their collective understanding of the management of ESG issues.
5. Results
The structure of presenting the results of this case study is here outlined to the reader. There were three main research questions introduced in chapter two. What are the motives for joining UN PRI? How is UN PRI implemented into business operations? What are, if any the effects and influences of implementing UN PRI.

The first section of this chapter presents the results on what motivates the signatories to join UN PRI. The second part presents how the implementation has been carried out among the responding companies. This part also includes a presentation of how the work with the principles has been prioritized, organized and who is responsible for the implementation. In the third part of this chapter the effects and influences after joining UN PRI is presented.

In addition to these findings, the results of the closed questions are presented in appendix: D

The motivation for joining UN PRI
The responding companies have been driven by different factors and reasons such as, customer requirements, shareholder influence, competitive advantages, legal requirements (in the case of the state pension fund AP3* and for ethical reasons. Participation in UN PRI in the role of asset owners can help investors to put up demands on the companies they are investing in. The majority of respondents have also been motivated by what could be called an emotional factor as seen in the following answers:

“When PRI arrived, it felt natural to join” and “when it was time to join it felt perfectly natural to us”.

Another important driver for four of the respondents is that they were already working in a way which is in line with UN PRI. They have responsible investment policies or guidelines and strategies implemented to varying degrees. It is interesting to note that two of the respondents were also asked to participate in the development of the principles, which indeed influenced those respondents’ motivation more for joining than that of the other signatories due to their influences over UN PRI and its development.

*The preparatory drafts of the Swedish National Pension Funds Act (2000:192) state that AP3’s overriding objective is to achieve high returns at a low level of risk. The Fund must take account of environmental and ethical considerations in its investment operations but without compromising this goal. Source: www.ap3.se, retrieved May 17th, 2010
The implementation of UN PRI

Priorities within UN PRI
In order to better understand the implementation of the principles, it was deemed appropriate to investigate how the actual activities around UN PRI had been prioritized. Most respondents state that their level of priority within PRI is a wish for maintaining what is described as clear transparency and that transparency in turn is dependent on the company’s core values. A humble attitude is also uncovered among the persons who have worked with socially responsible investments and its priorities for many years. Experienced respondents state that there is still a lot to be learnt from the implementation.

There is a change of attitude going on among the respondents; in the beginning most investors would exclude companies who did not fit the bill i.e. not being in compliance with UN PRI, exclusion however, was discovered not leading to any withstanding improvements among the excluded companies. Therefore, the direction now is towards dialogues with internal and external stakeholders and skill building/knowledge sharing with for example financial analysts and asset- or fund managers. All respondents have increased their communication around ESG issues and the general perception is that more and more dialogues are taking place both on the inside and outside of the organization, in comparison to past times when only few people knew and understood this area. The respondents talk in terms of a beginning of behavioral change which indicate that earlier thinking is now making progress and showing itself in action i.e. change in behavior in terms of the re-orientation of implementation strategies.

Another priority is that of relying more on internal analyses within the respondent’s organization in the area of internal risk assessment, which to a significant degree influences the establishment of new goals. Clear and specific goals are set and different types of screening are aimed at increasing credibility and legitimacy among the companies interviewed. Ethical councils, voting on Annual General Meetings and the responding company’s own sustainability reports are all on the agenda in support of implementing UN PRI.
Organization of UN PRI
In support of the priorities, the next question is to uncover how the work around UN PRI is organized. The respondents describe different ways on how they have organized UN PRI; examples include implementation of ownership policies and investment guidelines. There are also other methods in use like Annual UN PRI Action Plans and the establishment of Ethical Councils which conduct regular meetings. The screening of companies and investment portfolios with the help from professional service providers such as GES Investment Services and Risk Metrics are mentioned by the respondents. Professional service providers are companies that provide founding analyses for inclusion/exclusion decisions and screening of assets. It is in this context also stated by the respondents that the corporate world is becoming more transparent and the great benefit of using professional services providers like GES is that they provide a structured analysis and reports of information on company or industry specific issues. These services then provide a common ground for decision making. Many responding companies are dependent on external analytics for this purpose, which in turn puts them into a co-dependency to such service professionals.

The organization of UN PRI is also affected by input from NGO’s, Green Peace, Television Documentaries, National Environmental Conservation Boards and Media. The latter is though considered to have limitations and cannot work as a single source. United Nation´s reports are also used and seem to be core, as they provide a common ground for many investors and work as motivator for acting collectively and simultaneously on specific issues. Common information sources are used for cooperative actions and sanctions, which also influences the organization of UN PRI within the responding companies.

For many signatories, the organization around UN PRI is still somewhat immature and the identification of areas where the principles must be mirrored is ongoing. Models and charts of how PRI is organized more and more into mainstream investments and that the work gradually spreads across different geographies seems to be important. One respondent also speak in terms of UN PRI Compatible products and brands in the future organization around UN PRI. Through the use of ethical councils, company lawyers, different types of standards and risk analyses UN PRI is organized and controlled, this is essential in order to gain an understanding of what shall be done and where. Collaboration with related initiatives such as UN Global Compact is another attempt to jointly on a global scale work together which have effects on the organization of UN PRI. Most respondents agree that organizing PRI into its
operation will require quite a significant effort and a lot of information on behalf of the company.

**Who is responsible for UN PRI?**

Coming from the organization around the principles, the next step is to understand who carries responsibility for its implementation. This paragraph elaborates on the answers to who´s responsibility it is to work with UNPRI within the responding companies. The question of responsibility was introduced earlier in the paper and is closely linked to SRI.

The perception of who is responsible for UN PRI within the responding companies is very different. At one end there is one single person responsible for all work, and at the other end the whole organization is responsible for UN PRI. There is a difference between what is considered the official and unofficial responsibility, which implies that the main responsibility for adhering to UN PRI can be interpreted as resting with Top Management and the Executive Board, but in effect there are groups of people within the company who is carrying greater operational responsibility for UN PRI than the Executive Board members do. Different groups within the companies are developing/growing who in turn are given greater and greater responsibility for UN PRI. Voting on Annual General Meetings is not the main tool for addressing responsibility issues, but groups of individuals are, who are working more outside of annual general meetings in order to maintain control by the use of a close investor – company dialogue. Owner’s perspective is also mentioned on this topic, with so called ownership dialogues as a tool for carrying out responsibility.

The question of responsibility depends on who you ask and what level of responsibility that person herself has or takes, but the founding principle is that the executives and top management obviously consider themselves as responsible for UN PRI. In reality they are not always acting hands on with its implementation.
Implemented principles
The result of how each principle has been implemented is presented below.

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

The interviewed organizations have incorporated ESG issues in their policies and decision making processes to varying degrees. These answers and the actual implementation vary a lot. Some respondents have fully integrated ESG issues in their investment policies and others were in the process of implementing specific sector policies. One respondent states that the implementation of this principle is a complex task since asset managers may not have the skills to work with ESG issues:

“Yes, for our ethical funds it is stated in the investment guidelines. Not in the case of mainstream investments. We are merely trying to work with Asset Managers with ESG - skill building. We are going the other way around so to speak.”

In response to this principle a need is uncovered for different measures to be included in the analyses by the respondents. Social aspects seem to be more related to a company’s values which may be part of the screening process, whereas the environmental and governance issues are more relevant to be included in the analyses. PRI promotes collaboration and lessons are learned and shared among the signatories. An example ownership policy is presented in Appendix: E

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

In sharp contrast to principle one, this principle which addresses active ownership, the majority of respondents are active i.e. have it in operation and work in a similar manner. One respondent vote on 40 different Annual General Meetings and some have had it as part of the ownership policy for more than ten years. Most respondents claim that exercising active ESG ownership is business as usual and part of their standard operating procedures. These results have clear ties back to work carried out on ESG issues by some of the respondents prior to joining UN PRI. In this case the principle as such has also had limited effect, as it can imply a form of standard operating procedure already in place. Another response to this principle is that of using screening in order to monitor investments and either improve conditions by the use of investor - company dialogue or exit out of an investment with severe ESG issues.
**Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Transparency or disclosure is a cornerstone to all respondents. The respondents describe difficulties involved when trying to make adequate investment decisions without transparency on ESG issues. All respondents ask for increased transparency and a more continuous flow of ESG information from companies in the form of triple bottom line reports. It is not according to the respondents enough to receive an annual sustainability report in April which is based on last year’s activities. There is a need for just in time or even real-time information on ESG issues. In support of this principle, five out of six respondents participated in a joint investor initiative called sustainable value creation (Hållbart värdeskapande). The initiative sent a survey to the 100 largest (in terms of market capitalization) listed companies on Nasdaq OMX Stockholm and asked them for ESG related information. This initiative was considered a success and it was perceived to be a good thing to work together and it reduced some of the questionnaire fatigue that is present among publicly traded companies today.

**Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.

The respondent are active speakers on trade conferences, but do not necessarily engage in the marketing of UN PRI, but merely try to achieve a debate and discussion around the need for a common platform such as the principles. Most respondents are active in other initiatives and thereby try to influence their surrounding stakeholders. One reoccurring answer to this question was the joint initiative of sustainable value creation mentioned above. However, other actions were also brought forward such as placing demands on business partners to also join UN PRI. This is perceived as one way to actively promote UN PRI and make change happen.
**Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.

For principle five the answers are somewhat different among the respondents. Some speak of collaborations outside of PRI when they taken impressions from other investors all over the world. Another type of answer is that related to different UN PRI initiatives such a project on evaluating the implications with oil extraction from sand in Canada or the participation in UNPRI Annual Meetings. Signatories also state that they have worked together which in turn has led to the fact that there are also followers of the most mature SRI investors.

**Principle 6:** We will each report on our activities and progress towards implementing the Principles.

Two out of six respondents had joined UN PRI during 2009. Since the only established requirement when signing on UN PRI is to produce an annual progress report and either comply or explain, two companies had not yet produced their first reports. However, the remaining ones had done so in accordance with the UN PRI requirements. The respondents refer to their ethical council which produces a yearly report and that this year the report is based on the principles in the sustainability report. Reporting on results is perceived to be the desired way to demonstrate progress and effects of the UN PRI implementation.

**Effects and influences of UN PRI**

**Measuring the effects**

One of the main research questions in this thesis involves the effects of implementing UN PRI. This section presents the answers to how the respondents work with identifying and measuring effects. The way to identify measurable effects and key performance indicators are not self evident and the need for clarification in terms of what exactly can be measured in relation to the complexities involved when trying to separate different measurement variables from one another is presented among the answers. The results show a desire and an ambition to measure the effects. The openness of the principles leads to consensus issues around actual definitions of valid measurable effects of UN PRI.

Stand points on which kind of key performance indicators (KPI) to use has not been made. The respondents foresee enormous methodological problems involved when trying to measure the effects. However, knowledge levels are measured in some cases, by the use of evaluations of brokers and asset managers. Also, the level of media coverage, baseline reviews, evaluations of broker firms and keeping track of number of screened and analyzed companies
are all examples of different measurements that are in use among the respondents, which as such has not significantly been influenced the implementation of UN PRI, but has merely been part of standard operating procedures.

There is also an expressed desire to get policies in place and achieve a closer dialogue within steering committees and to in advance discuss what KPI’s to use in the evaluation. Respondents speak of different advantages with the implementation of measurable values as a tool, which in the long run will lead to increased added business value such as competitive advantage, increased attraction when recruiting and avoiding the risk of bad publicity.

It is also uncovered in the results that it is easier to discuss an investment’s exclusion criteria rather than inclusion criteria in the light of the complexities involved with measurable effects today. The discussion involves basic ESG requirements which are most likely to become demands in all future requests for proposals, which may then be given even higher business priority. The ethical aspects and core values are though difficult to measure, but are clearly going to form the foundation for future methodological decisions, which in turn speaks for a more qualitative quantifiable modus operandi. Ethical dilemmas involving that of investors shall aim to explain to a company why they exit as owners, is due to the company’s inabilitys to comply with ESG demands. Promises and discussions on future ways of measuring occurs, both qualitative and quantitative but without further explanation.

**PRI influences on signatories**

When embarking on a journey of change, which the implementation of UN PRI must be considered to be, it is interesting to uncover apart from the effects, how it influences its signatories. What are the influences of adopting UN PRI? The implementation of UN PRI alone cannot be interpreted to influence the companies interviewed greatly. It is merely dependent on factors which are interlinked to the implementation ESG issues in general. Influences among the signatories can be resembled by a chain reaction where the starting point has been signing on UN PRI where the consequence of its implementation has led to a number of new actions; new and more discussion forums with knowledge sharing of what the implementation means to the company. In general an increased focus on UN PRI activities and the start up of continuous follow up’s are also described as influences. Despite existing difficulties with the creation of meaningful and relevant measurable data on how the company is affected by the implementation, the perception among most respondents is that the use of
dialogue has increased or expanded and that in turn has led to more questions on the topic of responsible investments, which in general is perceived to be a positive influence.

There is also a discussion of stakeholders influence in order for UN PRI to generate a change within the company when new colleagues have been affected by its implementation. The awareness and acceptance has increased significantly among asset managers, which in turn means that the knowledge has increased and that more people, not only the ones working with UN PRI has been influenced by the implementation.

Lack of knowledge among the signatories has now been replaced by:

“Don’t complain because one company is excluded from your investments” and “there are plenty of other ways to make money, if you are good, you will manage anyway”.

These statements demonstrate one proof of a shift going on in terms of how the companies have actually been influenced by UN PRI. The notion of for example profit focus only and the increase of market share were earlier the main drivers for investors. It appears as if this has changed and a more sustainable direction is now taken with more active participation:

“If we would not have signed on, we would have felt excluded” and “it would have been very difficult for us to explain why we did not sign”.

Other important areas also influenced such as credibility, sustainable corporate citizenship and a higher rate of follow up’s on SRI issues, are all reoccurring among the answers.

The implementation has convinced the signatories that it is the right way forward. There is a positive attitude and trend around the influences on the implementation at large. Despite statements around financial crisis, high risk credits in the Baltic countries and questionable bonus systems, there is a mental shift which outmost concerns the maintenance and protection of the brand.

A need for tight controls around reporting and measuring the implementation progress is also mentioned by the respondents.

Sustainable Value creation is also described as an influence in support of UN PRI, which is an ESG-survey conducted jointly by Swedish investors covering the top 100 companies in terms of market capitalization on Nasdaq OMX Stockholm, in an attempt to increase transparency and provide better material for adequate decision making.
6. Discussion
Different paragraphs including the variances among investors’ motivation, different aspects of the implementation and the interpretations of effects are discussed in this chapter.

Motivation
In accordance with previous studies (Déjean, Gond and Leca, 2004 and Bengtsson, 2007) on the development of SRI, the motivation for signing on these principles can be explained by institutional theory. It has also in this study proved its relevance when examining organizational behavior and drivers for change. Institutional theory has earlier been described as the process in which institutionalization takes place where individuals come to accept and share social reality and that the change towards isomorphism (homogeneity) is driven by a set of defined drivers: Coercive, Mimetic Processes and Normative Pressure. All three of these drivers can be found in the results of what motivates the signatories to join UN PRI. Coercive is demonstrated in the case of shareholder pressure (external force). Mimetic processes is visible in the case “we do not want to be on the outside” (uncertainty) and normative pressure is shown in the case when investors ask companies to be transparent and must also themselves (is expected to) be transparent in their own reporting and interactions.

Three different isomorphic forces for change are presented among the responses. This homogenization involves an organizations aim to achieve legitimacy and the right to exist. The results can be interpreted as if the strongest force of change is that of mimetic processes, which strengthen the argument that it is uncertainty that drives change in support of SRI.

Implementation
This section discusses different perspectives on the implementation of UN PRI. Areas covered are the individual’s role, the role of triple bottom line reporting and the role of active ownership.

The role of the individual
As shown in the results in terms of responsibility, there is a dependency on the individual and his/hers emotions. Emotions are almost always considered out of context in the business world, but is in this case a very strong motivator as in the results of:

“we would have felt excluded if we had not joined”

With the help of institutional theory as an organizational tool, we can again attribute the mimetic processes or uncertainty as main driver for the individual.
The role of the individual is proved important when it comes to internal communication. Increased focus on and attention on ESG issues has connected individuals in new ways by knowledge sharing, skill building and increased need for communication on ESG issues.

It is difficult to assign corporate responsibility to an individual, this study show that the ESG work carried out today is very much done on an individual level and with personal responsibility, despite the fact that actual responsibility for signing on and implementing UN PRI rests with executive board or management team. One question springs to mind: How can the question of responsibility be defined in a legislative context? Also, in this context institutional theory can easily be applied and help solve the complexities involved in legal terms of responsibility.

As described earlier, respondents working with responsible investments for many years are also the most humble in their attitudes towards the challenges involved with SRI. This is a clear example of the need for additional research in the field. There are today very few given answers to all questions surrounded by responsibility in investments. Although some of the companies in this study have come comparably far in their process of handling ESG issues, there still seems to be a lack of knowledge in the area of including ESG issues into mainstream investment decisions. Experienced investors have gone from mainly applying exclusion criteria on questionable investments to become active owners with a close investor – company dialogue not only with the company they invest in, but also with other stakeholders such as other shareholders, interest groups, NGO’s etc. This has of course had a tremendous impact for companies now having to deal with active owners conducting intense communication on ESG issues which in turn will require attention and action.

**The role of triple bottom line reporting**

The results from the interviews imply a logical need for further reflections on triple bottom line reporting and transparency. All signatories state that one key success factor when making investment decisions in support of ESG issues is transparency. Triple bottom line reporting is therefore becoming more important both to investors and companies in the search of capital.

A need is also uncovered for more frequent information on ESG issues, which can be considered to be just in time or even in real time.

The future will probably demand greater intensity on ESG reporting in order to support investor’s decision making. There are several listed companies that are now pro actively
reporting against GRI like; ABB, SEB, SKF, SCA and Nordea. ABB for example even disclose their annual number of casualties at work in their 2008 GRI Sustainability Report. This is one example where companies have gone from mainly promoting its positive activities in the annual report to actually disclose of important and sometimes not so flattering ESG information. All Swedish state owned companies must report against GRI since 2008 (http://www.regeringen.se/content/1/c6/09/41/19/ea93479e.pdf, Retreived May 18, 2010).

Global Reporting Initiative is gradually becoming some type of *de facto* standard, but it is just like UN PRI kept open with options on reporting structure. Due to its openness, it is difficult to compare GRI-Reporting companies with one another. However, triple bottom line reporting is just like SRI a somewhat immature phenomenon and TBL will have to co-develop with general accounting practices in order to become widely adopted (Lawerence, 2007).

**The role of active ownership**
Active ownership has been reoccurring among the respondent’s answers to how principle two has been implemented. All signatories in this study hold shares not only, but to a large extent in publicly traded corporations in their portfolios. A company per se is not a democratic entity (Foley, 2003), companies can act unethically in the short term, but institutional theory ought to reduce the risk over time as companies are searching for legitimacy and conformity.

There is also a risk with that if investors perceive the avoidance of investments in companies with poor ESG performance as a responsible act (which is the most cost effective way to apply responsible investments), then there is a huge risk that very little effect will be induced on companies in need for improvement. But, that could also work as a motivator for change to such companies when being de-selected for investments or procurement. According to Lewis and Mackenzie (2000), UK investors were more inclined not to invest in companies with poor ESG performance. However, the general perception of investors in this study is that if one investor departs, there are always others to attract. From the results in this study the use of active ownership shall in so far as possible be applied if the aim is to improve on ESG issues.

If a company does not respond satisfactorily to the issues raised by the investor, the investor will eventually depart as owner, although this is the very last option, and it is considered a failure when that happens. The efforts made by the investor will not have withstanding effects on ESG. This is another example of institutional theory in practice, because some investors will mimic exit decisions of other investors.
There is also another risk attached to the low-cost operation or cost focus mentality (very common today) which may prevent investors to take on greater responsibility for ESG issues (still considered a cost to many corporations) when they themselves are assessed on cost – revenue ratios and quarterly earnings.

The business society has changed rapidly with a high rate of consolidation in the past decades. We are left with virtually a few major actors in most common industries today. What implications will the new arena with the characteristics of oligopolies present to the investor? Effectively there will be fewer companies to choose from in each industry and with few options comes higher risk. On the other hand, large companies are likely to avoid bad publicity and may therefore address ESG issues proactively.

Exit out of an investment when a company is not responding satisfactorily to ESG issues, is the final resort for a truly responsible investor. However, it is also considered an act of responsibility to exit an investment which does not improve on ESG issues. Hence, it is questionable if negative screening can be considered a responsible approach?

In contrast to exclusions there is a category of investments which are described as Best in Class or BIC whereby investors seek and promote the top performers on ESG issues. The use of BIC will increase and spread across all asset types in response to institutional theory which mirrors the future thoughts of the respondents.

**Effects of UN PRI**
The effects of adopting UN PRI are difficult to measure due to limitations in the methods used for measurements according to all respondents. Only those effects that are measurable can be made visible which creates a dilemma for all signatories. The methodological challenges around measurements can be perceived as overwhelming due to the complexities involved. One solution to this problem seem to be under way, as the pressure for transparency is strong and that the ethical aspects of doing what is perceived to be right dominates in accordance with institutional theory in order to gain legitimacy.

As seen from the results in this paper, the implications attached to measurements are significant. Applied moral and core values are part of the foundation around the work with ESG issues. How are these “assets” supposed to be valued? This implies that there is great demand for appropriate methods for collecting both the ethically/morally- and analytical parts present within UN PRI. Just like with the fact that a standard annual report was considered
limited and then Global Reporting Initiative came along. As brought forward in the introduction, the measurement models and tools of today may well be out of date in order to accommodate for more intangible and long term values that are involved in ESG.

One way in which UN PRI has had an accelerating effect is best described in the case of the joint initiative between UN PRI signatories and UN Global Compact. In this initiative a group of investors (two of them participating in this study) jointly turned to companies that had signed on UN Global Compact but not yet produced any progress reports. UNPRI signatories (investors) together with UN Global Compact did therefore put pressure on companies to report and that with success. In this case all companies who had reported diligently were recognized for their efforts. This is probably the way forward in the future, where we will see more of different organizations or initiatives which are joining forces in order to demand change and improve the progress on ESG issues among corporations. In this specific case, I would argue that PRI has made a difference and have had a significant measurable positive impact. This was done for the third year and reports are now coming in from +47% of the non-reporting companies in 2009, in comparison with 2008 where only 33% reported.

Source: www.unpri.org, (Retrieved May 12, 2010)

From the respondents of this study, it is evident that most signatories increasingly depend on both internal and external analyses from professional service providers, NGO’s and media.

The earlier outlined complexities around measurements and effects, strongly supports the need for further investigations in other sciences or disciplines outside of the corporate sector in order find suitable measurement tools in support of developing corporate responsibility at large. Especially in terms of presenting qualitative and quantitative values of UN PRI. This is not a unique shortcoming of UN PRI, but is present all over the CSR domain. Achieving measurable effects is important in order to strengthen the arguments for increased sustainability in society at large.

Values are identified but requirements for new types of measurements are needed. The inconclusive interpretations of the value of working with CSR mentioned in the introduction may very well be related to the complexities involved when including ESG issues and sustainable development into business operations and the way we try to measure its results with existing tools and measures.
7. Conclusions
The aim of this paper has been to investigate what are the UN PRI signatories’ motives for joining are, how the work around the implementation is carried out and what if any, are the influences and effects of its implementation? These three main questions were set out be answered. This chapter concludes this study and follows the structure of the set research questions with the addition of suggestions for future research, a link back the anticipated paradigm shift, final remark and end note.

Motivation
In terms of explaining the signatories’ motivation for joining UN PRI, Institutional Theory has helped and is applicable when understanding organizational behavior. As seen in the results, respondents react to different pressures such as norms, shareholders or values and act accordingly. These forces for change meet the criteria for drivers for isomorphic change as outlined in the theoretical framework; Coercive, Mimetic Processes and Normative Pressures.

Implementation
In terms of the implementation of UN PRI, there are large variances in the interpretation of the principles and how they shall be implemented. There are large variances in policies and guidelines and to what extent they are applied. Priorities and responsibilities are interpreted differently by the respondents. There are also dependencies on length of membership with UN PRI. The organizations that have worked for the longest period of time with UN PRI also have the most solid implementation of the principles. This implies that the ground is now laid for the inclusion of ESG issues, but will probably be re-defined as it develops over time.

Principle 1: Include ESG issues into investment decisions, is within all responding companies addressed by the use of investment- or ethical guidelines ranging from covering all assets to only covering specific investments types. This will change over time and is likely to become a standard operating procedure for investments decisions across all asset types.

Principle 2: Active ownership is implemented in a more consistent way among the respondents and takes the form of active voting on annual general meetings. There is a limitation with this in the sense that one single investor cannot vote or exercise active ownership in all investments. This will probably lead to closer collaboration between investors whereby investors will have different areas of focus and will share their knowledge and findings with other signatories.
Principle 3: Require transparency on ESG issues. This principle is perceived as a critical success factor by all respondents when making investment decisions. There are however limitations with the currently available data on ESG issues in terms of both its relevance and its timing. Therefore, I believe that demands on and the timeliness of triple bottom line reports will increase over time. This should really be a matter of concern to any CEO in the search for capital and long term investors. Also, the maturing of ESG will probably lead to sub-developments in E, S and G which in turn will provide more sophisticated evaluation models.

Principle 4: Promoting UN PRI. The respondents referred to the proactive example of the joint initiative of sustainable value creation where non-signatories also participated. Another example is that of UN PRI signatories placing demands on business partners and thereby promotes it adoption. If the latter becomes a standard operating procedure, then UN PRI with now over 700 signatories will have a significant impact in the financial services industry.

Principle 5: Collaboration on implementation which focus on the co-operation of signatories in terms of implementing the principles. This is a perceived strength with UN PRI and the common understanding of the benefits of collaboration is established, although collaborations may also occur outside of the UN PRI network. This means that UN PRI has influences on non signatories and that UN PRI Signatories in turn are influenced by other SRI-related initiatives. The collaboration efforts will most likely bring on influences from other initiatives in terms of its implementation.

Principle 6: Mandatory progress reporting may well be interpreted as the most tangible principle as it demands signatories to produce an annual report against a pre set format (comply or explain) of the progress made with UN PRI. Some respondents state that it is a tedious and complex task to complete the report, which may require additional resources and create an administrative burden for the signatory. This I believe can pose a risk that signatories are expected to produce reports, which are perceived to require more efforts than they give in return. Also UN PRI will have a significant task at their end to manage all reports and results.

**Variance in the implementation**

Bengtsson (2007), Sparkes and Cowton (2004) argues that responsible investments have matured and is now part of mainstream investments. This study demonstrates that firstly mainstream needs to be defined and secondly there is no evident proof that SRI investments are representing the vast majority of invested capital, if that is the true meaning of mainstream
investments. This argumentation is also supported by the results in this study with great
variances in interpretations and the level of implementation. Secondly, it is in my view good
that there are great variances because one could see the financial industry like an eco-system
and where large diversities (bio diversity) is perceived a strength and makes a system more
tolerant to unexpected forces of change (risks) (Walker and Salt, 2006).

Most of the respondents in this case study are members or signatories of multiple initiatives.
The earlier introduced related concepts of SRI imply that there is not one solution alone that
can address all aspects of ESG issues in the corporate world. It seems as if it is the combined
effort of several related initiatives that make up the ESG influences on the implementation of
UN PRI.

**Effects and influences**
There are influences attached to the implementation of UN PRI. They range from the
spreading of communication around UN PRI to the risk of deteriorating the value of the
principles as it is easy to join. This implies that UN PRI as an organization is expected to
diligently follow-up on all members report status. With over 700 signatories and relatively
small organization, this may become a difficult task to manage. All respondents in this report
state that they intend to continue as UN PRI signatories which must be perceived as a positive
influence in general. In terms of the effects, as mentioned before, there are methodological
implications which need to be addressed. I would though argue that in the example of the joint
effort by UN PRI and UN Global Compact, a measurable effect has been achieved. Another
example is that of worldwide joint initiatives targeted at specific companies on e.g. labor
rights have also had effects. Certainly the collective voice of many investors puts greater
pressure on companies than that of a single investor acting on its own.

**A paradigm shift**
In support of this study, we are today standing in the middle of a paradigm shift among
Swedish Investors. Efforts carried out in the last years are now showing results, and with the
ambitious future plans of all interviewed signatories, the implementation of UN PRI among
Swedish signatories will not only have internal effects on the signatories, but also spread to
society at large. A new order of investing is currently developing. SRI is growing in
importance and its presence within corporations is now just about to become mainstream.
This can be seen in the number of excluded investments, number of new ESG offerings and
other asset types like forests and properties also being evaluated in ESG perspectives. The
level of communication is also increasing on ESG issues in general and is now spreading both internally and externally across the actors within the financial industry.

**Suggestions for future research**

During the course of this work, several examples with implications around definitions in the area of SRI have been noted. This may provide one obstacle for a successful implementation of principles such as UN PRI. Therefore, the establishment of mutual terms, standards and definitions ought to benefit all stakeholders in the world of finance. Today there is for example no clear definition of what can be called an ethical fund (Dejéan, Gond and Leca 2004). On top of this, an ethical fund can still have investments in arms and tobacco companies as long as it is within the limits set out in the investment criteria. This is somewhat toothless as a standard investment portfolio very rarely contains more than a few percent of its assets in e.g. arms or tobacco. This means that for people on the “outside”, without significant skill building, it is a challenge to assess and value the offerings made by financial institutions in the light of ESG issues. In May, 2010 it was uncovered in Swedish Press that KPA (not part of this study) which is considered and marketed as “The” Ethical Pension Fund Management Company had investments in very questionable energy companies in North America. KPA is not a UN PRI Signatory.

The corporate world could benefit from further research on the correlation between ownership structures and activities related to sustainability. State and co-operatively owned companies have allowed for working with long term values and ESG improvements despite a strong market pressure to produce quarterly results. This is interesting because it has not been the same for publicly traded companies.

New methods of analyzing a potential investment are needed. Parallels can be drawn between the IT industry and Sustainable development; both involve the management of complex interactions between multiple stakeholders, have a comparably short history in the world and are co-dependent on a limited number of individuals’ competencies. The greater the risk involved with e.g. life critical software development for life supporting system or airplanes, the same is applicable for financial systems that aim to provide financial stability and security.

The Carneige Mellon Software Engineering Institute has developed a model for process maturity. Capability Maturity Model Integration (CMMI) is described as follows;

“CMMI is a process improvement approach that provides organizations with the essential elements of effective processes that ultimately improve their performance. CMMI can be used to guide process improvement across a
project, a division, or an entire organization. It helps integrate traditionally separate organizational functions, set process improvement goals and priorities, provide guidance for quality processes, and provide a point of reference for appraising current processes”.

See CMMI model overview in Appendix: G

This paper indicates that any actor within the financial industry can join and therefore a new area of research involving the actual value of UN PRI ought to be investigated further. Therefore, it appears appropriate to further investigate what can be learnt from other disciplines such as the software engineering discipline in support of sustainable development within the financial sector.

**Final remark**
The open and non-governing structure of UN PRI can be perceived as a weakness. However, the open structure is the greatest strength I would argue as it leaves signatories open to try new approaches and make their own interpretations. Going back to the results of this study all efforts made by the signatories has its value and relevance although they differ from one another. Therefore, the co-development among signatories of new ways of working is central in the establishment of ESG inclusion into investments decisions.

**End note**
In order to tie back to the citation presented in the beginning from Aldo Leopold, one must not go too far back in history, when there was a time when landowners were considered wealthy. Today, wealth is mainly measured in fiduciary terms. Financial means are derived from constant drivers for globalization, profitability, productivity gains and consolidation. Global environmental issues are at the same time severe (Millennium Ecosystem Assessment, 2005) and (Rockström et al., 2009), and are greatly jeopardizing our common future (UN Biodiversity outlook, 2010). The earth´s ability to feed and satisfy an increasing population (6Bn People in 2010, growing to estimated 9Bn in the next 40 years) with increasing demands for comfort i.e. consumption and freedom of choice is becoming uncertain. It may be the case in the long term that the inclusion of ESG issues into investments may help and prevent us from the danger of forgetting where our daily life supporting goods such as food and fresh water comes from.
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Appendices:

Appendix A: Glossary
Appendix B: Company overview presentations
Appendix C: Questionnaire
Appendix D: Results of closed questions
Appendix E: Sample ownership policy
Appendix F: UN PRI
Appendix G: Model overview of CMMI
Appendix H: SRI Related Initiatives
## Appendix A: Glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
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<tr>
<td>AUM</td>
<td>Asset Under Management</td>
</tr>
<tr>
<td>BIC</td>
<td>Best In Class</td>
</tr>
<tr>
<td>CDP</td>
<td>Carbon Disclosure Project</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>CMMI</td>
<td>Capability Maturity Model Integration</td>
</tr>
<tr>
<td>EP</td>
<td>Equator Principles</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, Social and Governance</td>
</tr>
<tr>
<td>GRI</td>
<td>Global Reporting Initiative</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labor Organization</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicators</td>
</tr>
<tr>
<td>LO</td>
<td>Swedish Labor Organization</td>
</tr>
<tr>
<td>NGO</td>
<td>Non Governmental Organization</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>SIF</td>
<td>Sustainable Investment Forum</td>
</tr>
<tr>
<td>SRI</td>
<td>Social Responsible Investment</td>
</tr>
<tr>
<td>TBL</td>
<td>Triple Bottom Line report</td>
</tr>
<tr>
<td>UN EP</td>
<td>United Nation Environment Program</td>
</tr>
<tr>
<td>UN EP FI</td>
<td>United Nation Environment Program Finance Initiative</td>
</tr>
<tr>
<td>UN PRI</td>
<td>United Nations Principles for Responsible Investment</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>WDP</td>
<td>Water Disclosure Project</td>
</tr>
</tbody>
</table>
Appendix B: Company overview presentations

AMF

AMF is a pensions company with simple and safe pension solutions with high returns and low costs.

AMF manages 335 billion SEK for about 3.8 million savers (traditional insurance 283 billion SEK (2009-12-31) and investment capital 52 billion SEK (2009-12-31). AMF is one of Sweden’s leading pension companies and one of the largest owners on Stockholm Stock Exchange. AMF has a single office and around 270 employees.

AMF is a life insurance company that is owned in equal parts by LO and Swedish Business. The company is run according to the principle of mutual benefit, which means that AMF's profits benefit the savers.

AMF works with a focus on pension on both individual and corporate markets. All products are either traditional insurance or investment insurance.

AMF Fonder AB also offers investment savings without connection to pension.


AP 3

AP 3 is one of five so-called buffer funds in the national pension system. We are mandated by Parliament to generate maximum possible benefit for the pension system by managing our fund capital so as to deliver strong investment returns at a low level of risk.

Pension fund with investment freedom

AP 3 is a state-owned pension fund with a government-appointed Board of Directors. We are more independent than most government agencies because the Board has sole responsibility for the operations of the Fund and because Sweden’s national pension funds are regulated solely by legislation and not by government directives. The Ministry of Finance reviews the national pension funds’ performance on an annual basis.

Investments in a diversified portfolio

AP 3 manages a diversified global portfolio of listed equities, fixed income assets and alternative investments. Alternative investments consist of private equity, real estate, timberland, infrastructure assets and new strategies.

The value of AP3's portfolio stood at SEK 206.5 billion on 31 December 2009. The fund had 55 employees at the end of 2009.

**Folksam**

Folksam är ett kundägt bolag. Det betyder att vi ägs av våra kunder och att vinsten inte går till aktieägare utan stannar hos oss alla.

Allt vi gör, i ord och handling, styrs av våra värderingar: trygghet, engagemang, medmänsklighet och professionalism.

- Folksam grundades 1908
- Vi är drygt 3 800 medarbetare, 50% kvinnor och 50% män
- Vi försäkrar varannan person och varannat hem i Sverige
- Vi försäkrar var femte bil i Sverige

**Vår vision**

Att bidra till ett långsiktigt hållbart samhälle där individen känner trygghet.

**Vi är kundägda**

Det betyder att vi ägs av våra kunder och att vinsten inte går till aktieägare utan stannar hos alla.

**Övergripande mål**

Vi ska ha försäkrings- och sparandebranschens mest nöjda kunder.

**Affärsidé**

Att i samverkan med våra kunder skapa och tillhandahålla trygghetslösningar med hög kvalitet, största möjliga trygghet och bästa ekonomiska nytta. Vi ska i första hand tillgodose de behov som delas av många.

**Personalidé**

Att våra kunder ska möta branschens bästa lag av kompetenta och engagerade medmänniskor.

Source: [http://www.folksam.se/omoss/dethararvi/1.61973](http://www.folksam.se/omoss/dethararvi/1.61973), Retrieved May 28, 2010
Nordea

Nordea’s vision is to be a Great European bank, acknowledged for its people, creating superior value for customers and shareholders.

Nordea has around 10 million customers, approximately 1,400 branch offices and a leading netbanking position with 6 million e-customers. The Nordea share is listed on the NASDAQ OMX, the exchanges in Copenhagen, Helsinki and Stockholm.


Facts and figures

Number of customers

Around 10 million customers of whom 5.9 million are also e-customers.

Market position

Number one or two in most Nordic markets.

Branches and employees

Approx. 1,400 branches - 33,347 employees (FTEs).

The Nordea Share

Listed on NASDAQ OMX Nordic Exchange in Stockholm, Helsinki and Copenhagen.

The three largest shareholders are Sampo Group with 20.3% of the shares, the Swedish state with 19.9% and Nordea Fonden with 3.9% [February 2010].


SEB

SEB is one of Europe’s leading banks. Our success builds on innovative thinking, an international presence and strong, long-term relationships. And has done so for more than 150 years. We focus on companies and private customers with exacting requirements. And we promise them an enriching relationship. SEB changes constantly to adapt to new times, markets and people. SEB makes life easier, in all its phases. We have always strived to make a contribution to society.

Skandinaviska Enskilda Banken AB (publ)

**SEB Facts**

SEB was founded in 1856 and is now one of Northern Europe’s leading financial Groups.

Entrepreneurship, an international presence and long-term relationships are our most important success factors.

Our target groups are companies and individuals with exacting demands for quality. The Group provides specialist expertise within all financial areas.

We have over 20,000 employees in 21 countries and have more than 600 branch offices of which one quarter are located in Sweden, another one quarter in Germany and the rest in Estonia, Latvia, Lithuania, Russia and Ukraine.

Our main focus is on Northern Europe, but we have offices in all the world’s important financial centres. From Paris to New York and Shanghai.

Our customers include around 2,500 large companies and institutions, 400,000 small and medium-sized companies as well as 5 million private individuals.

We promise our customers a rewarding relationship and keep this promise by always taking an innovative approach.

SEB has received a lot of outstanding awards.

SEB is a leading universal bank in Sweden, Estonia, Latvia and Lithuania. We are leading within a number of areas including cash management, foreign exchange trading, security trading, asset management and private banking. We are also the largest broker on the Stockholm and Oslo Stock Exchanges.

SEB is number two and six respectively on the Copenhagen and Helsinki stock exchanges in terms of market share.

Swedbank Robur

Swedbank Robur is one of Scandinavia’s largest mutual fund managers and a wholly owned subsidiary of Swedbank.

Swedbank Robur offers savings products for private individuals and institutional clients. The products range from investment funds to life insurance, pension products and discretionary investment management. Approximate 147 investment funds are open for investments covering all major regions, sectors and asset classes. Altogether, Swedbank Robur serves close to 3 million customers, primarily in Sweden, for whom it manages approximately €66.9 billion in assets, as of December, 2009.

Source: [http://www.swedbankrobur.se/default_5.aspx](http://www.swedbankrobur.se/default_5.aspx), Retrieved May 28, 2010

About Swedbank Robur

Since its foundation in 1967, Swedbank Robur has evolved from a small, equity-based mutual fund company into a highly diversified provider of savings products. The current investment portfolio includes equity and fixed-income mutual funds, a range of unit-linked life insurance policies, pension plans and discretionary accounts for institutional clients.

Today, thanks to effective management and unique access to some 900 Swedbank branch offices, we are one of the largest asset management companies in the Nordic region. Robur formally changes its name to Swedbank Robur on December 1, 2006.

Currently, Swedbank Robur manages some 147 funds ranging from pure equity funds to fixed income and balanced funds. With an active management approach, our aim is to provide savings vehicles that enhance investors’ economic security and freedom.

Appendix C: Questionnaire

Questionnaire on the implementation of PRI

1. What were your motives for signing on PRI? Vad var det som gjorde att ni gick med i PRI?
2. How have you decided to prioritize within PRI? På vilket sätt har ni valt att prioritera PRI?
3. How is your implementation of PRI organized? Hur / på vilket sätt har ni organiserat införandet av PRI.
4. Who is responsible for the work with PRI? Vem eller vilka personer ansvarar för arbetet med PRI?
5. Which of the following principles have been implemented in your organization? Vilken eller vilka principer har ni infört i er organisation?

P.1 - We will incorporate ESG issues into investment analysis and decision-making processes?
If yes, please describe:

P.2 - We will be active owners and incorporate ESG issues into our ownership policies and practices
If yes, please describe:

P.3 - We will seek appropriate disclosure on ESG issues by the entities in which we invest.
If yes, please describe:

P.4 - We will promote acceptance and implementation of the Principles within the investment industry
If yes, please describe:

P.5 - We will work together to enhance our effectiveness in implementing the Principles.
If yes, please describe:

P.6 - We will each report on our activities and progress towards implementing the Principles.
If yes, please describe:
6. In what way has the implementation of PRI influenced you company? På vilket sätt har införandet av dessa principer påverkat företaget?

7. If you measure, what methods are used for quantifying the effects of PRI? Om ni mäter, vilka mätmetoder använder ni för att kvantifiera effekterna av införandet av PRI?

8. Is there anything you would like to add? Är det något du vill tillägga?

Closed questions / Slutna frågor:
Agree to disclose company name in report: Y/N
Company Name:
Name of respondent:
Title:
PRI Signatory since:
Total volume AUM – Asset Under Management 2009?
Historical data on % of PRI Investments of total AUM:
No of excluded investments since the inception of PRI:
No of excluded investments 2009:
Do you actively participate in the PRI in practice blog? Y/N
Do you actively participate in PRI Web-based collaboration tool Clearinghouse? Y/N
Do you actively use the PRI Report and Assessment tool? Y/N
Have you participated in the PRI annual event? Y/N
Do you intend to continue as a PRI signatory? Y/N
Appendix D: Results of closed questions

The following closed questions were asked and the results are presented in the table below:

<table>
<thead>
<tr>
<th>Respondents Name</th>
<th>Folksam</th>
<th>Nordea</th>
<th>SEB</th>
<th>AP 3</th>
<th>Swedbank</th>
<th>Robur</th>
<th>AMF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carina Lundberg Markow</td>
<td>Manager SRI</td>
<td>Sasja Beslik</td>
<td>Christina Strand</td>
<td>Christina Kusoffsky</td>
<td>Anna Nilsson</td>
<td>Head of SRI</td>
<td>Head of Corporate Governance</td>
</tr>
<tr>
<td>Carina Strand Wadsjö</td>
<td>Manager</td>
<td>Christina Kusoffsky</td>
<td>Hillesøy</td>
<td>Manager Communication and SRI</td>
<td>Analyses</td>
<td>2009</td>
<td>2009</td>
</tr>
<tr>
<td>Peter Lindell</td>
<td>Head of Corporate Governance</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership category</td>
<td>Asset owner</td>
<td>Investment manager</td>
<td>Investment manager</td>
<td>Asset owner</td>
<td>Investment manager</td>
<td>Asset owner</td>
<td></td>
</tr>
<tr>
<td>Total Assets Under Management (Bn SEK)</td>
<td>245</td>
<td>1580</td>
<td>1275</td>
<td>206,5</td>
<td>693</td>
<td>335</td>
<td></td>
</tr>
<tr>
<td>UN PRI Assets as a percentage of total AUM</td>
<td>100%</td>
<td>N/A</td>
<td>N/A</td>
<td>100%</td>
<td>N/A</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Goal for 2010 within UN PRI</td>
<td>100%</td>
<td>N/A</td>
<td>N/A</td>
<td>100%</td>
<td>N/A</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>No of excl. investments since UN PRI</td>
<td>30</td>
<td>11</td>
<td>10</td>
<td>9</td>
<td>N/A</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>No of excluded investments 2009</td>
<td>3</td>
<td>N/A</td>
<td>10</td>
<td>N/A</td>
<td>10</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Active use of UN PRI Practice blog:</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Active use of UN PRI Clearing House:</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Active use of Report and Assessment Tool:</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Visit annual UN PRI event:</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Intend to continue as UN PRI signatory</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>
Appendix E: Sample ownership policy – AP3
Source: www.ap3.se, Retrieved May 12th, 2010

Environmental and ethical compliance – the AP3 approach

This memo provides a closer look at AP3's approach to environmental and ethical compliance and supplements the corporate governance policy approved by the Board of Directors.

Environmental and ethical compliance
The preparatory drafts of the Swedish National Pension Funds Act (2000:192) state that AP3's overriding objective is to achieve high returns at a low level of risk. The Fund must take account of environmental and ethical considerations account in its investment operations but without compromising this goal.
In this context, AP3's policy is to encourage companies in which we invest to take responsibility for the environmental and social impact of their business activities.
Observance of sound environmental and ethical practices is vital if companies are to be run in shareholders' best interests over the long term. These aspects therefore form an integral part of AP3's corporate governance work. AP3 works to ensure that the managements of companies in which we invest identify and manage social and environmental risks so as to create shareholder value.

AP3's core values
AP3's core values are founded on international conventions signed by the Swedish government and its support for initiatives such as the United Nations Global Compact and the OECD Guidelines for Multi-national Enterprises. Sweden is a signatory to many international conventions, covering areas such as human and labour rights, corruption and inhumane weapons. Our ethical and environmental policy is based on the core values of the Swedish state, for which democracy and equality are paramount.
As an investor, AP3 bases its ethical and environmental standards on the assumption that all the conventions signed by Sweden are equally important and should be complied with. This approach is also built on decisions and statements from United Nations agencies affirming human rights as universal, indivisible, interdependent, interrelated and inalienable. By linking our standards to international conventions and by working with others who share our aims we can be part of an international coalition on the financial markets to ensure that any treaty breaches are brought to light – an approach that strengthens the conventions in question.
AP3 bases its approach on the assumption that companies in which it holds shares abide by international conventions and agreements ratified by Sweden. We also assume that companies with operations in Sweden comply with Swedish law. Our view is that companies have a responsibility to follow international conventions, irrespective of whether they are aimed at states, individuals, businesses or organisations. This responsibility also applies regardless of whether the countries in which the companies operate have signed the conventions or have weak rights protection frameworks. Active governance is AP3's primary tool for environmentally and ethically responsible investment. In rare cases, we may exclude companies from the portfolio if they fail to meet the standards required under our corporate governance policy.

Integrating environmental and ethical compliance into the investment process
AP3 has a two-step system for incorporating environmental and ethical considerations in our investment activities.
1. Ethical screening to establish if any of the companies in the portfolio are acting in contravention of international conventions.

Approved by the CEO January 2010
2. Ethical risk analysis to establish the environmental and social risks to which portfolio companies are exposed and how the companies manage these risks.

This process is designed a) to ensure that AP3 has no investments in companies that contravene international conventions, and b) to guarantee that the Fund is aware of the environmental and social risks pertaining to companies in which we are a major shareholder. AP3 will initiate discussions with a company if a deficiency comes to light.

Ethical screening and exclusion

AP3 screens the listed equity portfolio to examine whether any company is in breach of international conventions. If there is reason to suspect that a company has seriously infringed an international convention we investigate the facts. If our inquiries reveal any such breaches we urge the company to act to prevent a recurrence. However, if these contacts do not result in progress and there is reason to believe that contravention will continue then AP3 will sell its shares.

Serious breaches of international conventions can include:

- Systematic human rights abuses, such as man-slaughter, torture, unlawful detention, forced labour, the worst forms of child labour and child trafficking.
- Infringements of individuals' rights in war or conflict zones
- Infringements of international environmental treaties
- Companies that manufacture weapons in contravention of the Nuclear Non-Proliferation Treaty, the Ottawa Convention on anti-personnel landmines or conventions on chemical and biological weapons.

In cases where Sweden has signaled its intention to sign a convention, AP3 may decide to act as if the convention has already been signed.

Ethical risk analysis

AP3 uses active governance to ensure that the companies in which it invests have proper procedures to identify the ethical and environmental risks to which their businesses are exposed. We work to ensure that companies have risk management systems in place to manage potential incidents and that they also have a corporate code of conduct. This applies especially to companies whose business operations have a substantial environmental impact or that have production and/or purchasing in countries where there is a lack of government will or ability to ensure compliance with basic international rules and regulations on human rights, worker rights, corruption and environmental protection.

A corporate code of conduct means a group-wide framework of rules and systems to handle environmental and social issues. It should meet the following requirements:

1. **Transparency.** The basic principles of the code should be communicated openly to shareholders and other stakeholders, though AP3 respects the fact that in certain cases it may be inappropriate to publish detailed guidelines externally. It is also important that guidelines are clearly communicated to all employees within the group.
2. **Compliance and control.** Compliance must be monitored regularly for a code of conduct to be effective and credible.
3. **Reporting.** Proper evaluation of the code by share-holders and other stakeholders requires that the company demonstrates satisfactory external reporting of the code and of compliance procedures and appropriate data. The Global Reporting Initiative (GRI), a United Nations initiative to develop an international environmental and social reporting standard, is a good model on which to base this reporting.

AP3's ethical risk analysis focuses on companies in which we hold relatively large shareholdings. These are primarily businesses based in Sweden.

Joint Ethical Council of the AP funds

AP1, AP2, AP3 and AP4 have a joint Ethical Council that handles issues of environmental and ethical compliance at foreign companies in which they hold shares. AP3's screening of its listed equity portfolio takes place largely through the Ethical Council. Each fund has a representative on the Council.
Efforts are based on systematic screening of the AP funds' equity portfolios to identify and analyse breaches of international conventions. The Ethical Council seeks to persuade companies to refrain from infringing conventions and to introduce group-wide preventive measures to prevent future breaches.

Working closely with other investors leads to more effective governance and the Council tries to do so when feasible and appropriate. This approach also makes it possible for international investors to work with a major partner in Sweden on active governance in ethical and environmental issues.

**Sustainable investment**

AP3 invests in companies we deem capable of contributing to our overall goal of achieving a high return on capital. A comprehensive strategy for environmental and social responsibility is often essential for building a strong brand and preserving a company’s reputation, which in turn is vital to guarantee long-term access to capital. We believe that well-run companies are better long-term investments. For many businesses, environmental and ethical responsibility creates opportunities (such as developing sustainable products and services) and promotes competitive advantages.

**UN Principles for Responsible Investment**

AP3 has signed the UN Principles for Responsible Investment, which encourage investors to integrate environmental, social and corporate governance issues in their financial analysis and decision-making processes. We are gradually incorporating these principles in our investment operations and encourage other investors to adopt them.

**Reporting**

AP3 believes transparency is essential for building trust in what we do. We inform stakeholders about our governance work in an annual corporate governance report and also in the annual report. The Ethical Council also publishes an annual report.
Appendix F: UN PRI as described on UN’s official website

Source: [www.unpri.org](http://www.unpri.org), Retrieved May 12th, 2010

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
• Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
• Support shareholder initiatives and resolutions promoting ESG disclosure

4 We will promote acceptance and implementation of the Principles within the investment industry.
Possible actions:

• Include Principles-related requirements in requests for proposals (RFPs)
• Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
• Communicate ESG expectations to investment service providers
• Revisit relationships with service providers that fail to meet ESG expectations
• Support the development of tools for benchmarking ESG integration
• Support regulatory or policy developments that enable implementation of the Principles

5 We will work together to enhance our effectiveness in implementing the Principles.
Possible actions:

• Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
• Collectively address relevant emerging issues
• Develop or support appropriate collaborative initiatives

6 We will each report on our activities and progress towards implementing the Principles.
Possible actions:

• Disclose how ESG issues are integrated within investment practices
• Disclose active ownership activities (voting, engagement, and/or policy dialogue)
• Disclose what is required from service providers in relation to the Principles
• Communicate with beneficiaries about ESG issues and the Principles
• Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'\(^1\) approach
• Seek to determine the impact of the Principles
• Make use of reporting to raise awareness among a broader group of stakeholders

\(^1\)The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.
In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.
Appendix G: Model overview of CMMI


Further details on CMMI can found at: http://www.sei.cmu.edu/ Retrieved May 12, 2010
Appendix H: SRI Related Initiatives

United Nation Global Compact

Another example of sustainability related efforts by corporations include that of adopting The United Nations Global Compact. UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor conditions, environment and anti-corruption. Source: www.unglobalcompact.org, Retrieved May 12, 2010

United Nations Environment Program Finance Initiative

The United Nations Environment Program Finance Initiative (UNEP FI) is a unique global partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with nearly 200 financial institutions who are Signatories to the UNEP FI Statements, and a range of partner organizations to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations. Source: www.unepfi.org, Retrieved May 12, 2010

Sustainable Investment Forum

Sustainable Investment Forum (SIF) is a worldwide network with nationally established groups of members, in Sweden it is SWESIF (www.swesif.org) it is more of a collaboration forum, has a fee-based membership structure and is as well as Equator Principles a finance industry initiative. Some SWESIF members are also signatories of UN PRI so there are overlaps among these signatories. Source: www.swesif.org, Retrieved May 10, 2010

Equator Principles

Equator Principles is the Finance Industries own initiative (established in 2002) and it only applies to project financing with a value of USD 10M or more (this threshold was USD 50M up until 2006). The investment threshold is particularly relevant as it according to official websites of the two Swedish signatories’ only cover a handful of investments per year. Despite a small quantity of Equator Principles investments annually, they may still have a very strong adverse influence on ESG issues. Source: www.equator-principles.com, Retrieved May 10, 2010
Carbon Disclosure Project

Carbon Disclosure Project (CDP) is an initiative where organizations from across the world’s major economies measure and disclose their greenhouse gas emissions and climate change strategies through CDP which increases transparency. Source: www.cdproject.net Retrieved May 8, 2010

CDP has lately also launched an initiative on water consumption: Water Disclosure Project (WDP) with the aim of reducing water consumption.