



The Role of Ethical Funds in Influencing Sustainable Business Practice

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Centrum för tvärvetenskaplig miljöforskning

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Abstract

The rapidly growing market of ethical funds is partly a response to an increasing demand from investors, and partly a reaction to an increasing corporate engagement in and understanding of ethical and environmental issues. This study discusses this field from the invested companies' perspective. Several earlier studies theorize that socially responsible investment and specifically, ethical funds have a potential to change corporate behaviour. This thesis places ethical funds among the general driving forces that have an impact on today's companies, and analyzes ethical funds and their role as a driving force when it comes to influencing the companies they are investing in. From the ethical fund holding of KPA Pension, 19 companies participated in this study. Using questionnaires and interviewing, this study has found that ethical funds cannot be considered having the role of a driving force regarding influencing the companies' environmental engagement and corporate social responsibility. Customers, investors and engagement of companies seem to be the major influencing actors and the driving forces for encouraging work with these issues. According to the companies themselves, there are still positive effects of the ethical funds, though, in form of customer feedback, increased goodwill and market share. Some of the companies have not had as much contact with KPA Pension as much as they say they would have wanted to, but still, the companies feel that the communication and the dialogue between them and KPA Pension is a valuable one. Also, the companies show signs of understanding that working with environmental and ethical issues is a continuous process, and therefore should the relation between the companies and KPA Pension be improved.

Keywords: Ethical fund, actor, driving force, impact, SRI, CSR, company

Sammanfattning

Den snabbt växande etiska fondmarknaden är dels en respons på ökad efterfrågan från investerare, och dels en reaktion på ett ökat intresse och förståelse för miljö och etiska frågor från företagets sida. Denna studie diskuterar detta fält från företagets perspektiv. Ett flertal studier har lagt fram teorier om att socialt ansvarsfullt investering [SRI] och etiska fonder specifikt, har potential att förändra företagets beteende. Denna uppsats placerar etiska fonder bland generella drivkrafter som har en effekt på dagens företag, och analyserar etiska fonder utifrån deras roll som en drivkraft när det gäller påverkan av företag som dessa investerare i. Från KPA Pensions etiska fondinnehav, deltog 19 företag i studien. Genom enkät och intervjuer har denna studie funnit att de etiska fonderna inte kan sägas vara en drivkraft när det gäller att påverka företagen gällande miljö och CSR frågor. Kunder, investerare och företagets egna, inre engagemang verkar vara de främsta aktörerna och drivkrafterna för att uppmuntra till arbete med dessa frågor. Enligt företagen själva, dock, finns det fortfarande positiva effekter som de etiska fonderna ger upphov till i form av positiv respons från kunder, ökad goodwill och ökade markandsandelar. En del av företagen menar att de inte har haft lika mycket kontakt med KPA Pension som de kanske hade velat, men känner att dialogen och samarbetet mellan dem och KPA Pension har varit och är värdefullt. Dessutom visar företagen tecken på förståelse att ett arbete med miljö och CSR- frågor är ett kontinuerligt sådant, och därför borde relationen mellan företagen och KPA Pension förbättras.

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1 Introduction

This section starts by providing a short background to the present environmental and ethical problems and how they can be connected to today's companies. It continues by covering some of the theories in the field of SRI and ethical funds, and presents how these elements can be used to reach the above-mentioned problems through financial incentives aimed at invested companies. In the second part, the purpose of this thesis is presented together with questions, which will support the process of the study.

1.1 Background

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”

(Our Common Future, A/42/427 WCED 1987)

This phrase was stated in 1987 by the United Nations World Commission on Environment and Development, or better known as the Brundtland Commission. The work of the Brundtland commission can be seen as a result of increased public awareness of the growing environmental problems on our planet at the time. The commission's report declared that global environmental problems were connected to the poverty of the Southern hemisphere and non-sustainable consumption and production in the Northern hemisphere. It called for a strategy that would unite social development and environmental issues, thus defining the term *sustainable development*¹ (*Our Common Future, A/42/427 WCED 1987*).

Twenty years have passed, and there is no doubt that global awareness for environmental problems have continued to grow. Today, when looking at sustainable development, it is important to discuss the position of modern corporations and what effect their actions have in our society economically, environmentally and socially. Goods, services, transports and employment are positive elements provided by companies², but unfortunately, pollution and natural resource depletion are only a few of the negative side-effects of their activities. This discussion is gaining importance as the progression of globalisation becomes more evident. Many large companies have become multinational by spanning over traditional state borders and national jurisdictional regulations. Of the world's 100 largest economic entities, 51 are now corporations and 49 are countries.³ Under such conditions, the corporate impacts on the environment and societies are difficult to grasp.

What degree of accountability and responsibility can be expected from the corporations regarding their impacts on the society? The financial world has been influenced by the 1970 Nobel Prize winner Milton Friedman's⁴ statement that the only social responsibility of business is to increase profit for its shareholders (Boatright, 2006).⁵ At the same time there are opposing views, which mean that corporations do have responsibilities, which stretch beyond making profit (Boatright, 2006). There are also *ethical* aspects linked to responsibility. Ethics is often referred to as a kind of moral philosophy that, from a value perspective, theorizes issues such as good and evil (Bonnier's Compact Lexicon, 1996). The public opinion on what could be named as corporate violations on ethics and society has been

¹ Also known as *sustainability*.

² In this thesis, a company is an abstract congregation of norms, rules, transactions, physical institutions and individuals; be it goods, services or experience-providing one.

³ <http://www.ips-dc.org/reports/top200.htm> 2006-09-26.

⁴ Milton Friedman (1912-2006).

⁵ <http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html> 2006-11-27.

a significant factor in the discussion of corporate ethics as well as *corporate social responsibility* (CSR) (Klein, 2000). CSR is for most companies still a relatively new set of ideas, since they stretch beyond the field of employees, financial management and industrial relations. CSR is often referred to as "the wider social role"⁶ (in terms of societal engagement) of companies. As an example, some companies have been using (and still are) Asian low-wage sweatshops as their production sites, which has resulted in a lot of media attention and the public making demands for certain measures regarding CSR (Klein, 2000). Such events are only a part of a growing call for change that have resulted in various means of social, ethical and environmental incentives upon companies.

A relatively new concept in the CSR debate that has grown in importance during the past decades is *socially responsible investment* (SRI). SRI is a form of asset management that places capital in an investment object according to certain ethical criteria. It can be seen as a financial tool where CSR, as a part of sustainable development, is the crucial goal. There are many different ways to define SRI, mainly because there are many different ways to monitor and measure ethics but also because the fund market⁷ today offers a vast differentiation of ethical funds and other forms of ethical investments that are based on different criteria and market demands.⁸

SRI is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. It is a process of identifying and investing in companies that meet certain baseline standards or criteria of CSR and is increasingly practiced internationally.⁹

SRI includes investment in social projects and low-interest loans to developing countries, yet the largest proportion of the SRI market is in the form of *ethical funds*. The idea of incorporation of ethical criteria into investment is not new. As far back as the 1800s, churches, universities and pension funds have been using screenings, so called "sin screens" to exclude tobacco, liquor or gambling investments.¹⁰ In the Victorian England, the religious movement of Quakers managed funds that restricted investment in weapon manufacturers. Another example is the *The Social Creed of Churches*, which exposed the goals for a just society and was adopted in 1908 by the US based Council of Churches (Social Investment Forum, 2005).

The modern era of socially responsible investment can be traced to the Vietnam War between the 1960's and 1970's. During the war, many investors became uncomfortable about their money being invested in or supporting companies that were supplying the war and turned to look for alternatives. In the 1980s, another example of ethically selected investments took part during the Apartheid regime. An organized boycott consisting of individual and institutional investors started to pull their money away from companies that operated in South Africa and that directly or indirectly supported the oppressive regime (Jantzi Research, 2003).

Since the 1990's, the market for ethical investment has grown significantly. From the beginning it was seen as a minor activity for small-scale idealists but has today expanded considerably; SRI has moved from the margin to the mainstream (Sjöström, 2004). One large factor that has contributed to the growth of ethical funds is legislative pressure through

⁶ http://www.csreurope.org/whatwedo/EuropeanAcademy/Asurveyoncompanies/HowdocompaniesdefineCSR/#Overall_conceptual_understanding 2006-09-23.

⁷ See page 12 for definition.

⁸ <http://www.etiska-fonder.se/kategorier.php> 2006-09-23.

⁹ O'Rourke (2002) citing www.socialinvest.org.

¹⁰ <https://www.raymondjames.ca/cda/display.do?contentid=e6085f4853edef00VgnVCMServeraf0c0caaRCRD> 2006-10-05.

government and authority intervention, adopting mainly ethical fund criteria and technique in conventional pension saving (Cowton and Sparkes, 2004). Growing SRI represents a view that traditional financial analysis and investment techniques do not capture the full range of factors to investors and which at the same time increasingly affect company performance.¹¹ Many companies and investors still think there is a “catch” with ethical funds (Sjöström, 2004) as tradeoffs between efficiency and equity are inevitable in business (Boatright, 2006). Milton Friedman stated that social responsibility of corporations reduces the returns to its shareholders by devoting to actions that spend their money (in Boatright, 2006). According to modern finance theory, SRI funds are unlikely to affect companies’ capital investment programs and are unlikely to outperform conventional, broader market indices (Haigh and Hazelton, 2004). Also, due to exclusion criteria, a reduced investor spectrum leads to inferior return on investment. However, since SRI eliminates companies with risks concerning social and environmental reasons, it is possible that they would indeed do as good as or better than according to general index (Haigh and Hazelton, 2004). In fact, there are no indications that ethical funds would under- perform their conventional counterparts. They follow sustainability and regular indexes since they do not differ in overall design from the conventional mutual funds (Sjöström, 2004; Skillius, 2002, 2005; O’Rourke, 2002b). Ethical (or SRI-) funds are by far the fastest growing element of socially responsible investment today. Europe has been the leading market for SRI for many decades, followed by USA, Australia and Canada, with the Asian market on the rise. The amount and assets of ethical funds have grown about seven thousand percent in the last two decades (Bartolomeo and Familiari, 2005).

1.2 Purpose

As discussed above, ethical funds are on the rise, and are, despite not being a new conception, a relatively unexplored scientific field. There are a number of authors that point to the relevance of ethical funds as financial incentives for corporate change regarding environmental and ethical issues, and this study attempts to contribute to this discussion by looking at the Swedish ethical fund market and some of the companies invested in ethically.

The purpose of this thesis is to assess the role of ethical funds as a driving force toward more sustainable business practice.

In order to do this, the thesis will start by covering theory of which general actors and driving forces exist around a company. This is important since it describes the surroundings of a company and the elements that influence it. The thesis will then concentrate on the actors and driving forces of SRI, and specifically, the role of ethical funds as a driving force; what impact, if any, they have on the invested companies. This process is supported by three questions that are connected to the procedure of reaching the purpose:

- Which actors are involved in a company’s environmental and ethical work? **[who?]**
- Why do companies engage in environmental and ethical work? What are the general driving forces regarding sustainability? **[why?]**
- Do ethical funds have any impact on the companies? **[what?]**¹²

¹¹ <http://www.siricompany.com/sri.shtml> 2006-09-13.

¹² The author is aware of the fact that the first and third questions, that is, “who” and “what”, technically refer to similar things. In this thesis, however, the question “who” refers to actors as “objects” or “institutional bodies”, whilst the question “what” refers to an “occurrence” or “result”.

This work is made in association with KPA Pension's holding. KPA Pension is interested in whether a chronological change in environmental certification among the companies in their fund holding is discernable.

2 Design of study

In this section, the methods and material used to obtain information from the companies is presented: how many companies participated in the study, along with the types of interview methods and questions that were used. The section also discusses the benefits and drawbacks of the various types of interview methods in regard to this study. A presentation of the study's delimitation and outline ends the section.

2.1 Method and material

This study was conducted during the autumn of 2006. It is primarily based on a survey gathered through a questionnaire (see the *appendix*) that contains 32 questions about environmental and CSR issues. The request for participation in the survey was sent by e-mail to 47 companies within KPA Pension's holding list, of which 19 participated. The questions are qualitative, meaning the study analyses and discusses such aspects as policies, voluntary work and attitudes instead of quantifying carbon emission amounts or utilization of electric power. The purpose of the study shaped the questions in an open form mixed with questions with simple yes/ no alternatives. All the companies in the study are anonymous.

The companies in the survey come from KPA Pension's Swedish holding list (companies invested in by KPA Pension) categorized as originating or operating in Sweden and are noted as *corporations/ joint-stock companies*¹³. The companies represent many different industrial branches such as engineering and general production industry having approximately between 200 and 100 000 employees and an annual turnover between 300 and several hundred billion SEK. The companies participating in the survey are exclusively *large* and *very large* businesses despite that some companies' number of employees does not exceed the 250 employee- limit set by the EU Commission for medium- sized companies. In these cases, the annual turnover goes well beyond the 50 million €(which is the second limit), therefore, these companies are classified as large or very large by the author (European Union Commission Recommendation 2003/361/EG, Article 2). Number of employees and annual turnover were the ratios used to determine a company's size in relation to the EU definition. This information was obtained from the companies' own official websites and will not be listed in this thesis due to their anonymity. Information about KPA Pension comes from the company's website¹⁴ and the author's company contact, KPA Pension chief environmental manager (pers. comm.). Only official information provided from KPA Pension is used and presented in the thesis. Even though the companies participating in the survey come from KPA Pension's latest holding list, KPA Pension does not know which companies have participated in the study. Figures and data used in the thesis are mainly reports and surveys made from authorized analysts such as Folksam, SiRi or Social Investment Forum, which are available as electronic resources.

The author chose to send the call for participation through e-mail to *all* the companies in the list, meaning no selection of companies was made based on any specific criteria. Three ways of participating were offered to the companies: the questionnaire (electronically), telephone interview or ordinary interview (see the *appendix*). Interviews were not recorded but written down. Both Swedish and English languages were used in the survey. The material used for the development of the survey was influenced by questions derived from Almgren and Brorson (2003). The questionnaire is grouped into the following sections: Environmental

¹³ Sw. "aktiebolag".

¹⁴ The internet sources will be presented as footnotes with retrieved datum. Only the starting internet domain will be presented in the source register.

questions, CSR- questions, General environmental- and CSR questions, KPA Pension's ethical fund and Criteria, interpretation and implementation.

Questionnaires are tools for evaluating environmental and social performance of corporations. It is a form of acquiring information which is relatively easy for a study object to answer, and for the analyser to gather and process the data. It is rather a simple and direct way of communicating specific issues. One disadvantage of questionnaires is that companies frequently receive numerous forms and questionnaires from sustainability reporting agencies, non-government organizations (NGOs) and authorities (O'Rourke, 2002b). This tends to prolong the returning of questionnaire in comparison to interviewing. Sjöström describes this as a corporate "[...] enthusiasm that sometimes is in inverse relation to the amount of questionnaires they are faced with" (Sjöström, 2004:16).

Telephone interviews are practical by providing the interviewer with direct answers and minimizing the risk for misunderstandings, something the questionnaire does not. At the same time, telephone interviewing tends to be very impersonal, while regular interviewing creates immediate contact between an interviewer and an interviewee. Yet there is a risk of the interviewee feeling exposed and confronted during a meeting due to the asymmetry in the situation, something that can result in tension and reluctance (Fägerborg, 1999). This is where telephone interviewing has an advantage by adding distance between the interviewer and the interviewee, thus increasing the probability of more extensive and relaxed answers.

The questions were designed in an open form so that a wide range of information could be acquired, comprising issues ranging from environmental certification to social programmes and engagement. Since the companies' perspective is important in this thesis, the author did not wish to steer their answers in any direction. Also, if the questions were of mixed design, the risk of the interviewee experiences the questionnaire or the interview as dull would be decreased.

Every interviewee and, in this case, every company, has an interest of presenting itself positively regarding the issues discussed and to show its good side towards an interviewer. Sjöström (2004) states that companies are often reluctant and careful when it comes to external inquiries about their business. Therefore, the author considered the chance that a company would participate in the study as higher if there was an aspect of anonymity guaranteed. Anonymity is a tool that can enhance a positive contact between the interviewer and the interviewee. It also helps to mitigate possible unease and to promote the reliability of answers (Fägerborg, 1999).

2.2 Delimitation of the study

Ethical funds provide a various set of values through their investments. The investors receive financial returns and invested companies receive capital. Yet a large part of these values can not be specified in numbers. Much of the function of ethical funds is to promote CSR and environmental engagement in companies being invested in (Skillius, 2005). Because of these incalculable values and the nature of this thesis' purpose, a qualitative research and analysis is applied in the thesis. The study's focus is primarily on the investment objects of KPA Pension fund portfolios and not KPA Pension itself. Even though KPA Pension's funds are managed (placing of private capital) by its main owner Folksam, KPA Pension still offers these funds and communicates ethical and environmental issues with the companies. Therefore, Folksam will not be covered in this thesis. There are several other kinds of socially responsible investment apart from ethical funds that will not be covered in this thesis. Nor will it compare and analyze ethical funds in detail regarding returns, profit and structure/buildup. The focus of the study is the relationship between the ethical funds the respective company (investment object) and what this connection means from a sustainable perspective. Out of 47 companies in KPA Pension's holding, 19 have chosen to participate in this study.

2.3 Outline of the study

The thesis will, firstly, put the ethical funds into context among the general driving forces that are having an impact on today's companies. Secondly, it will discuss the driving forces within the concept of SRI and move toward a focus of specifically ethical funds as a part of SRI. Finally, the thesis will analyze the relationship between the ethical funds and companies' own environmental and social engagement, bringing those together with CSR and SRI issues. Section 3 presents the theoretical framework starting with earlier studies, continuing from a broader perspective of general actors and driving forces of companies in order to concentrate on actors and driving forces in SRI. The focus turns to the ethical funds, which are discussed as driving forces of sustainable business. Their impacts and potential are presented and discussed by linking together CSR and SRI. In this section, general information about ethical funds is being presented although the focus lies on the theoretical discussions. The author felt that this information needed to be presented as early as possible in order for the reader to easier understand the discussion about the limitation of "ethics" in the ethical funds and their methods and function. Presenting this very information later in the thesis would not give equally appropriate context to section 3. The section ends with a description of the analytic framework of the survey. In section 4, the situation of Swedish ethical fund market related to the European and global market is presented in brief followed by general description of the Swedish funds and fund system. The role of KPA Pension in this study is presented in section 5 with a brief comparison with two other Swedish fund companies regarding funds, assets and other. Section 6 provides a discussion about results and ethical funds in general. Section 7 presents conclusions and outlines the implication and need for future research.

3 Theoretical frame

The purpose of this thesis is to assess the role of ethical fund as driving force for sustainable business practice, and this section starts the theoretical discussion by briefly covering earlier studies in this field. It presents the general driving forces in business to provide the reader with the basic elements that entail influence on a company. The section also discusses various actors and driving forces in SRI connected to invested companies. Ethical funds will be discussed as one of these driving forces by using earlier studies as a base and discuss the ethical funds' limitations and methods. The section continues by connecting the actors and driving forces in SRI to the aspect of CSR in order to relate companies' actions to environmental and ethical issues. The section ends by providing the reader with the analytical frame that will be used in the analysis in chapter 5.

3.1 Earlier studies

Earlier studies from, among other, Sjöström (2004) and O'Rourke (2002a, 2002b, 2003) show that ethical funds have a potential of changing companies through ethical investment in terms of environmental and ethical thinking and working. Haigh and Hazelton (2004), among others, argue the contrary, that ethical funds do not hold enough large assets that could promote a change through, among other, shareholder voting. The fact is that the ethical fund market grows rapidly, which is partially a response to an increasing demand from private and institutional investors, and partially a reaction to an increasing ethical and environmental engagement of companies. This engagement is often voluntary, stretching beyond laws and regulations. Boatright (2006) relates ethics and business to the many economical tradeoffs and conflicts between these two aspects, and discusses Milton Friedman's thesis about profit as the ultimate goal of business from an ethical point of view. Porter (1985) theorizes the general force of business as a form of competitive advantage, something that is countered by the presentation of companies from a networking and cooperative perspective instead (Ford et al., 2003; Luo, 2006).

Waddock et al (2002) presents the vast sphere of actors around a company that all entail different driving forces upon companies' actions and decisions. Waddock et al (2002) also identifies primary and secondary stakeholders together with social and institutional pressures for sustainable business. Studies by O'Rourke (2003), Cowton and Sparkes (2004), Sjöström (2004) and others argue that the SRI market as whole and ethical funds specifically can be an influential power when it comes to change in business towards sustainability. These studies cover the theoretical spheres of actors, driving forces and impacts of business both generally and from a SRI point of view. Most of these authors also relate to each other, thus further strengthening the connection between the different theoretical features. This study can be seen as a complement to the general ethical fund discussion, adding empirical material in order to further estimate the role of ethical funds in business.

3.2 Forces of business

Profit making is considered to be the basic spur for business and continues to be the dominant force when it comes to shaping companies' goals and actions. However, profit making is not the only driving force in business (Boatright, 2006). Porter (1985) identifies five competitive elements that can be seen as driving forces, both internal and external. These five elements are suppliers, potential entrants, buyers, substitutes and rivalry among existing companies that all entail driving forces on a company. He stresses the importance of competitive advantage in form of differentiation in comparison to other actors (competitors) on a market. A company cannot afford to lose its position on a market to its competitors in any way. Therefore,

according to Porter, competition is the primary element that actors are working according to and are being affected by (Porter, 1985). Porter does not illustrate other aspects, yet are there other driving forces than mere competition? Boatright (2006) mentions that the idea of a free market assumes perfect competition. According to Boatright, a free market does not exist, and thus, neither does perfect competition. Therefore an exclusively competitive perspective needs to be expanded. Noorda (1980, in Luo, 2006) invented the term *coopetition* where competition and cooperation coincide. Luo goes beyond bipolar thinking and uses coopetition in a conclusion that states that in cooperation, competition is inevitable because of each actor's own goals. At the same time, cooperation tends to make companies more efficient by, for instance, technology trading (Luo, 2006).

Ford et al (2003) also opposes Porter's theory of an exclusively competitive approach by describing companies' activities from a broader, networking spectrum. The two theories are not directly opposable, since Porter mostly discusses *forces* that steer companies' actions, whilst Ford et al discuss how the companies *act* and *react* to its surroundings. Still, these two theories complement each other by providing a good view on which driving forces are important to a company and how companies relate to other actors. To be able to understand the role of ethical funds, one must first clarify the general actors and driving forces in business before looking at actors and driving forces in SRI.

Apart from mere competitiveness, companies can mutually benefit from exchange of information and knowledge by creating relations or networks with authorities, universities, NGO's but also their competitors. In addition, possibly the best way for a company to be successful is by competing and cooperating on a market (Ford et al., 2003). The definition of the market mirrors the actors that participate in it. One definition describes the market as a network of relationships. These are formed through interactions and transactions between various actors (between business and business or business and customers). Since these relationships are inevitably connected to each other, together they build up a network of actors and relationships that, in turn, build up a market (Matsson, 2000). Porter presents two further aspects of the market term. There is the market concerning customers (from a company perspective) and the market concerning the whole range of companies with their products and services (from a customer perspective) (Porter, 1985).¹⁵

3.3 Actors and driving forces in sustainable business

To further expand the view where different actors entail their influence on companies, Waddock et al. (2002) define *stakeholders*¹⁶ in SRI as sources of pressure on companies regarding sustainability issues. These are divided in three separate groups: primary stakeholder pressures, secondary stakeholder pressures and social and institutional pressures. Primary stakeholders are owners, employees, customers and suppliers while secondary are NGOs and activists, communities and governments. The third group are driving forces coming in forms of social and institutional pressures like ratings/rankings, triple bottom line accounting, research, awards, reporting and standards, both national and global (see **table 1**).

Table 1 – Sustainability Stakeholders (Waddock et al., 2002)

<u>Primary Stakeholders</u>	<u>Secondary Stakeholders</u>	<u>Social and Institutional Pressures</u>
<ul style="list-style-type: none"> • Owners • Employees • Customers • Suppliers 	<ul style="list-style-type: none"> • NGO's/ activists • Communities • Governments 	<ul style="list-style-type: none"> • Proliferation of "best of" rankings • Emergence of global principles and standards • Triple bottom line responsibility/ accounting

¹⁵ Both Porter's and Mattsson's definitions of a market will be used in this thesis.

¹⁶ Sw. "intressenter".

Owners/investors have a profitability interest that is one of the main driving forces in business. Shareholder activism and social investing are two examples of investor/owner pressures or driving forces on companies (O'Rourke, 2002a). When looking at the primary stakeholder sphere, employees can choose whom they wish to work for, and the companies cannot afford to behave irresponsibly by risking losing essential human capital. Not only can they leave a company, but employees can also make demands and spur changes regarding corporate actions. Customers and suppliers are actors that also entail a driving force for sustainability; often, they do not wish to be connected with unsustainable business (Waddock et al., 2002). Secondary stakeholders/actors like NGOs are putting pressure on companies through lobbying, information and protesting. Communities and governments are entailing pressure on companies through law-making and reporting demands. Rankings awards and standards are helping to improve environmental and social performance of companies, by enhancing transparency and engagement (Waddock et al., 2002). Together with these stakeholders, media, whose attentiveness has a tendency to make companies constantly "on guard", are powerful actors that can quickly put in motion powerful public opinion regarding pollution or ethical violations (Skillius, 2002).

3.4 Actors and driving forces in socially responsible investment

As a primary (investing) stakeholder, socially responsible investment comes with its own set of actors and driving forces that together make their impact on companies they invest in. Sjöström (2004) examines the different actors in a SRI market and their influence on a company's environmental and CSR work. According to Sjöström (2004), in the field of ethical investment, institutional investors such are the main actors. Banks, churches, unions and pension fund providers are examples of institutional actors that are increasing in authority when it comes to responsible investment. From a SRI perspective, investors are driven by financial performance whilst companies are driven by brand management, values, legislation but also risk avoidance (Sjöström, 2004).

Shareholders of a company are another powerful actor, a primary stakeholder according to Waddock et al. (2002), which also takes a role of a driving force in SRI (Sjöström and Sweet, 2006). The term *shareholder activism* has grown in importance during the last two-three decades. It seems that shareholders have further roles than just being providers of risk capital and receivers of profit. As shareholders engage with corporations on environmental and social matters through voting on shareholder meetings or active ownership, it means that they take part in shaping norms about what corporations are responsible for. O'Rourke evaluates the impacts from shareholder activism and looks at "responsible ownership" and what can be expected from such. Policy-making, voting on proxies and corporate dialogue and engagement are some of the examples of shareholder activism (O'Rourke, 2002a). Examples of shareholders are, as given by Sjöström and Sweet (2006), individual investors, NGOs, churches and institutional investors such as banks. One strong impact of shareholder activism is that it opens up a SRI and CSR dialogue between shareholders and the company even if an issue did not win in a voting. A drawback is that there are legal restrictions upon shareholder proposals in what is considered to be "ordinary business" and that there is no guarantee that a SRI shareholder issue will be performed as it was proposed, if at all. Further on, Mackenzie and Lewis (1999, in Haigh and Hazelton, 2004) found that investors are attracted to SRI funds because they believe that SRI can change companies. Investors are seen as a power to be counted on because of their role as the essential providers of capital, and are the actor behind ethical funds that can use these as tools in order to promote company change toward more sustainable practices.

Lobbying by NGOs is comparable to shareholder activism regarding method of impact on companies. It becomes more and more common for NGOs to own shares in companies they wish to influence. The two actors are separated by their aims and objectives despite the similar nature of the driving force. From a SRI perspective, shareholders see their investments as incentives for making money in a responsible way while the narrower agenda of NGOs is comprised of a use of shares to promote certain issues instead of acquiring actual return of investment. This form of SRI driving force often results in a change of companies in forms of increased CSR and environmental engagement (Cowton and Sparkes, 2004).

Sjöström (2004) discusses the range of driving forces in SRI and brings up examples such as legislation, (general) moral values, risk avoidance, financial performance and market opportunity. Through legislation, public pension funds have been connected to ethical funds in several European countries, making them some of the largest driving forces in SRI. Emission, pollution and discrimination laws add further to control and influence companies' work. Sjöström also states that the basis for the concept of sustainable investment is the general assumption that social and environmental engagement is "good", and to neglect these issues is considered "bad", something that can be reflected in the actions of companies. Companies that handle environment with care and work according to international conventions on labour and human rights are rarely to become objects of fines, lawsuits and detriment to company image, and are thus eliminating financial risks (as well as deteriorated goodwill). Due to this risk avoidance, there is a great possibility of better financial performance of responsible investment and thus increased market opportunity (Sjöström, 2004).

Environmental commitment of companies is becoming more and more common, and it is reflected in their actions (Gallarotti, 1995). Not only are external actors and driving forces important, but also the companies' opinions and actions regarding environmental and ethical issues. Porter (1990, 1991; in Gallarotti, 1995) brings up "green competition" as a form of a company's gain of market values through positioning. According to Porter, companies should create green niches to outperform their competitors. Markets can be efficiently penetrated, maintained and dominated as a result of environmental differentiation and competition (Gallarotti, 1995). This is linked to the earlier thesis about competitive advantage (Porter, 1985). Companies do not wish to "stay behind" in the green revolution and cannot afford *not* to be ahead of their competitors. The environmental issues are thus seen as a competitive tool just as product profiling or technological innovation.

3.5 Ethical funds as a driving force

Managers of ethical funds perform screening of companies according to criteria, thus making a selection for investment according to a company's environmental and ethical performance (O'Rourke, 2002b). It is highly probable that companies may change their behaviour to live up to this kind of investor criteria (Sjöström, 2004), and that ethical funds can be seen as a positive driving force not only by financial incentives but also by changing corporate behaviour in terms of values and norms (O'Rourke, 2002b). Managers of ethical mutual funds and pension funds often engage in active dialogue of CSR that goes beyond economic issues with the companies they invest in, thus further influencing their environmental and ethical activities (Sjöström and Sweet, 2006).

In the United States, for example, shareholders have voting rights that are associated with holding stock. These rights allow investors to vote at annual and/or special meetings and to present their opinion on issues ranging from the election of directors, to certain compensation agreements, social and environmental policy issues, fusions and other corporate governance concerns. This is *not* the case with funds. When investors own companies indirectly through their mutual fund portfolios, they do not retain voting rights of

shareholders. They must rely on the fund’s management to act as a fiduciary, and to vote on their behalf. This is called *proxy voting* and it is a process that transpires in the best interest of the fund owners (Nowlan et al., 2005). Proxy voting is a tool for shareholder activism as it opens up the transparency issue by making companies viewable for its investors (Cowton and Sparkes, 2004). In Sweden, this is not a common feature yet (Skillius, 2002).

SRI funds are stronger corporate governance proponents than their conventional counterparts, according to Nowlan et al. (2005). Non- SRI funds seldom support social resolutions through voting at the same time as they do not tend to promote discussions about these issues. SRI funds generally show to be more critical against governance proposals than non-SRI funds. Overall, managers of SRI funds are often more concerned and engaged in social, ethical and environmental issues thus resulting in more engaged voting and discussion (Nowlan et al., 2005).

3.5.1 Criteria, screening and indexes

A common factor among ethical funds is the use of a screening mechanism that selects companies on basis of certain ethical criteria. There are in general, two types of criteria; *negative* and *positive*. Negative (or avoidance criteria) are applied to sought investment objects that a fund company wishes to avoid completely no matter how good or bad its environmental or ethical performance is. Such criteria are the most used ones on the fund market today (see **figure 1**) (Skillius, 2002; Haigh and Hazelton, 2004). Positive (or influencing criteria) are used on potential investment objects matching most prerequisites but that would need improvement from an environmental and ethical point of view. Positive criteria are also used generally when having a dialogue about these issues with an investment object.

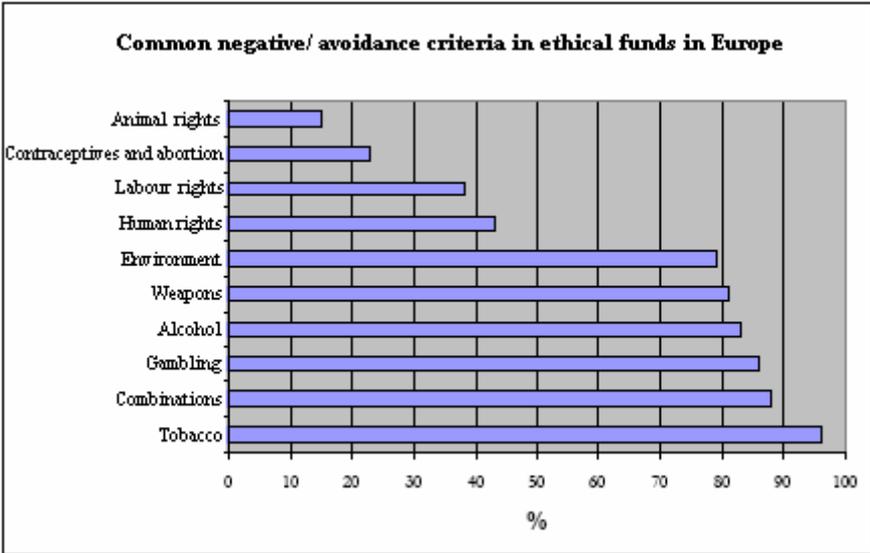


Figure 1 – Percentage of avoidance criteria usage in European ethical funds (translated from Skillius, 2002)

Both negative and positive criteria are built with a mark of ethics, environmental and social aspects and are used as an ethical benchmark when an investment object is evaluated. Ethical funds work according to the same procedure except that additional, ethical screenings are also being applied. The entire process of selecting an investment can be described as a series of screenings being applied in order to define an investment. During a screening, an investment object is evaluated and analysed, providing the fund company with a picture. There are several types of screening methods, yet the one that probably has the most relevance for

ethical investment (and also good environmental performance) is the *best-in-class* screening method where a company is compared to another within the same industrial sector. This is performed in order to determine the leading performance in accordance to the demands set by the criteria (O'Rourke, 2002b).

Other screening methods are negative (or excluding) and positive (or influencing) screening according to (likewise) criteria. Negative screening of companies was the first method to be used where businesses involved in, for example, weapons production, alcohol, tobacco or gambling were excluded from an investment list and banned from the potential fund. This posed as a problem since a definition of what could be concerned "ethical" varies between different countries, companies and legislations. Today, the positive screening method is becoming more common (Skillius, 2005). This method means that instead of simply excluding companies who do not fulfil ethical criteria, investors are often engaged in a dialogue with the company. Such companies do not have a part in any of the businesses excluded by the negative criteria. Screenings are often performed by ethical analysts who not only communicate the issues with the company in question but also perform detailed analyses to promote ethical and environmental performance through investment (Sjöström, 2004). KPA Pension, for instance, uses positive and negative criteria when performing screenings for potential investment objects.¹⁷

Similarly to conventional funds, which are following conventional indexes, most of the global ethical funds are following sustainability indexes. The major purpose of these indexes is to measure the performance of companies that meet sustainability criteria and to provide investors with SRI benchmarks. Some index providers have an extensive purpose through active SRI and CSR dialogue and encouragement. Washington D.C. based Calvert Social Index, Dow Jones Sustainability Indexes and the Johannesburg Stock Exchange JSE are three examples of such indexes. Most of these and the many others have been launched after year 2000 (Sjöström, 2004).

3.5.2 The impact of ethical funds

A traditional view that being "green" does not pay is still prevalent in some divisions of the financial world. This view has come under scrutiny in the past decades with increased governmental regulations where companies have found themselves bearing greater costs for pollution regarding taxes, fines and litigation. As an example, "end-of-pipe"¹⁸ solutions are more costly than pollution preventing (Gallarotti, 1995). Chami et al. (2002) states that ethical behaviour can indeed be costly (for companies), but consequences of ignoring ethical issues can be even more expensive. There are different reasons to the growing investor interest in ethical funds. Environmental and ethical work of companies tends to minimize investor (and its own) future costs and overall risk (O'Rourke, 2002b).

The potential of ethical and environmental impact of ethical funds is untapped, yet the quantification of responsible investment is difficult to obtain because of the many values they provide that cannot be connected to financial returns (O'Rourke, 2003; Skillius, 2005). According to some researchers, ethical funds are unlikely to affect companies' capital investment programs because their holdings account for such a small percentage of the register of any corporation (Haigh and Hazelton, 2004). Calvert, the world's largest SRI company in the world, usually holds less than one per cent of a company's shares (Haigh and Hazelton, 2004). According to Sjöström, "no investor would sacrifice financial pay-off even if it was for a 'good cause'" (Sjöström, 2004:17). However, Cowton and Sparkes refer to Lewis

¹⁷ http://www.kpa.se/mallar/Sida_697.aspx 2006-11-05

http://www.kpa.se/mallar/Sida_698.aspx 2006-11-05

¹⁸ "End-of-pipe" refers to filters on the end of industrial pipes, meaning, decontamination of an already existing pollution.

and Mackenzie (2000) who state that there is evidence that “underlying investors in SRI retail funds are willing to accept lower returns as a price worth paying in order to invest in line with their conscience” (Cowton and Sparkes, 2004:49). Also, since companies must follow and fulfil ethical criteria in order for ethical investors to invest in them, the criteria, and not percentage of asset holding, should be the factor that steers the potential of influence of investors.

Investment demand for companies with “good” intentions tends to increase with positive environmental and ethical performance. Companies also receive encouragement regarding ethic, social and environmental engagement and overall increased attention and focus, which can result in better offerings in deals and loans since the company poses less financial risk (Skillius, 2002). Just as sustainable reporting binds a company to follow what it states; so can the holding of the ethical funds be a restraint for *unethical* corporate behaviour, adding pressure for responsible work. Investors can thus see ethical funds as an agreement that companies invested in are not being involved in scandals which can thus have. This adds to improved environmental and social effects of companies’ actions (O’Rourke, 2003).

Gallarotti (1995) connects different aspects of returns (or “effects”) of responsible business. He means that goodwill, improved brand and respectful image are just as important as profit. From a financial perspective, responsible environmental and social performance is linked to low risk, which can lead to increased investments. A company that effectively manages the environment is usually well managed overall and will provide higher returns in the long term. Skillius (2002) gives several examples of evaluating financial performance to ethical performance. There is always a risk of public notice about bad ethical and environmental performance in relation to ethical investment in that particular company. Meaning, companies invested in by SRI means have a pressure to work according to certain principles if they wish to keep the capital flow inwards. A comparison between conventional (labelled as “non-ethical”) investment portfolios and SRI portfolio returns can be done to estimate a financial value of ethical investment returns (Skillius, 2002).

3.5.3 Limitations of ethical funds

There are general limitations of “ethics” in the ethical funds. From a financial perspective, investors are giving a certain degree of power and control to ethical fund managers by letting these decide what should be deemed as ethical and what should not. Is a fund unethical because it is not labelled ethical? What does such classification say about conventional funds? (O’Rourke, 2002b; Cowton and Sparkes, 2004) The negative criteria are in general avoiding businesses connected to weapons, alcohol and tobacco production, to name a few. When discussing what is ethical and what is not, unethical issues almost always mean negative aspects for humans or the environment. Yet considering weapons that are used by police who fight crime, who is to decide if this weapons production is generally unethical? Cars are involved in thousands of lethal accidents, should car production be avoided for ethical reasons as well (Sjöström, 2004)? Ethical funds tend not to invest in polluting industries, yet all businesses have a certain amount of negative influence on the environment. It is quite difficult to draw a line for what is acceptable according to ethical fund criteria. Furthermore, many ethical funds allow a certain amount of percentage of a company’s income to come from “unethical” businesses (Skillius, 2002).

Even though positive criteria are becoming the most used screening processes in SRI, negative criteria are still dominant. How is this avoidance related to a SRI manager’s social responsibility? Is *avoidance* a plausible ethical goal instead of striving toward influencing change? Negative screening and avoidance not only allows unethical investors to continue their business, it also further reduces fund diversification by missing potential investment objects (Cowton and Sparkes, 2004). One particular example of the limitations of negative

criteria and avoidance is the “ethical” trade boycott of the South African companies during the Apartheid regime. Apart from making a statement, the boycott did not have the desired effect, because the avoided companies in question turned to other investors that were less concerned about ethics (Skillius, 2002; Haigh and Hazelton, 2004). The prevalent use of negative criteria today can possibly be due to the simplicity in avoidance than actually initiating dialogue and influencing a company toward sustainable business. This poses for an increased responsibility of ethical fund managers and companies to engage in more extensive and deep dialogues with the companies invested in.

3.6 Socially responsible investment and corporate social responsibility

In many companies, CSR has existed in one form or another for many decades, incorporated in policies and business. With socially responsible investing on the rise, it is important to explain the grounds upon which CSR and SRI concepts base their values. This discussion is based on the conviction that companies have a certain social responsibility through the actions they perform. Ethical, environmental and social aspects must thus be given as much importance as customer relations, technological inventions and profit in order to sustain responsible business (Boatright, 2006).

Based on Milton Friedman’s statement (which has been prevalent in the financial world for over 30 years) that “the only social responsibility of business is to increase profit for its shareholders”¹⁹, companies have acted more or less according to this statement. Companies do have an *economic* responsibility to produce goods and services, to provide jobs and wages and provide returns to its shareholders. Companies also have *legal* responsibilities, which means that there are rules, obligations and regulations to be followed. In addition, there is a *social* responsibility that is often expressed as the voluntary engagement or assumption of companies that goes beyond the purely economic and legal liabilities. Companies are responsible to provide profit and returns for shareholders, but this does not mean it is not bound to certain responsibilities, that is, that profit can come at any price (Boatright, 2006).

Not much of the sustainable investment would have happened if it, at the same time, had not being based on moral values and an actual corporate will or internal driving force to do “good”. Companies must be *willing* to participate in the process of CSR and environmental engagement, meaning, something has to exist inside a company in order for environmental and CSR work to be possible (Sjöström, 2004; Chami et al., 2002; Boatright, 2006; and O’Rourke, 2002a). Because environmental and social responsibility goes beyond legal requirements, it can be assumed that this sort of engagement is spurred by a will to do “good” or “the right thing”, and that this will is a result of the moral values that individuals and organisations hold. Cowton and Sparkes (2004) mention that there is more and more difficult for companies to ignore such “voluntary” issues since institutional investors raise these sorts of questions. But why should corporations care about ethics (or the environment)?

A common opinion is that there is no need for ethics; there are laws (Boatright, 2006). If a company follows the rules (laws), does it mean that all actions within those regulatory frames are “okay” to do? Companies involved in sweatshop scandals never actually did anything illegal, neither according to the laws of the company’s home country, nor the laws in the country where the production was held. Still, the local workers suffered hazardous labour conditions and the state of the local environment was deteriorated (Klein, 2000). Laws are necessary, but so are ethics (Boatright, 2006). Given that a corporation ought to be concerned with ethical issues, is it going to do so according to own will or is it necessary for outside actors to force it upon the corporation? The ethical behaviour of companies can be defined in

¹⁹ <http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html> 2006-11-27.

terms of group-group interaction. Ethical choices of an individual are reflected in collective consequences (Chami et al., 2002). If a corporation acquires a bad reputation, what consequences will it have? The answer is; the individuals in the (customer) market will care. Through the language of regulated prices, for example, the market will communicate ethical issues with a company as with a language that its manager can understand (Chami et al., 2002).

Companies consist of individuals, who are driven by rational choices just as various interests drive business itself and interested parts that strive to create values for themselves, often through conflicting goals. These conflicting goals are consisting of trade-offs between efficiency and ethics (Boatright, 2006). Which one is the strongest driving force? Mills (1996, in Cowton and Sparkes, 2004:47) states that “the righteousness of any monetary return is conditional on the absence of the exploitation of customer, worker creditors and suppliers”. Larmer (1997, in Cowton and Sparkes, 2004) regards shareholder decisions and how they ultimately shape the actions of companies, stating that “simply approving of an immoral action is immoral”.

According to the thesis of Milton Friedman, profit and shareholders are two very important driving forces for companies (Boatright, 2006). Yet short-term profits are diminutive when discussing the development of the society as a whole. Striving toward short-term profits has shown to be unsustainable from a societal perspective, especially if paralleled to the stock market of the late 1920s (Blomberg, 2004). Ethical fund investing, on the other hand, provides different values that come in different forms of returns/profits for investors and capital for the invested companies. These values, or impacts, of ethical investment are often absorbed in a corporation in forms of CSR and environmental engagement (Skilling, 2005). Many companies have started to estimate financial value on aspects like goodwill. As an incentive, is there a price tag to be put on ethics as well? What would that price tag say?

3.7 Analytical framework

In this framework the theoretical concepts, together with the purpose, are taken into focus. The results will be analyzed on the basis of the following aspects: actors, driving forces and impacts in order to assess what role as a driving force do ethical funds have in promoting sustainable business practice, which is the purpose of this thesis.

- **Who:** An *actor* (a company or shareholders) is a unit that can perform an action toward other units, thus entailing a *driving force*. The theories of, among other, Porter (1985), Waddock et al (2002) and Ford et al (2003) will be used in this section.
- **Why:** A *driving force* (a wish to perform better environmentally or gain higher profit) is something that influences an actor negatively or positively (or both). In this section, the theories of Sjöström (2004), O’Rourke (2002b, 2003), Waddock et al (2002), Ford et al (2003), Boatright (2006) and Gallarotti (1995) will be applied.
- **What:** An *impact* is a resulting effect of either a driving force or an actor. (This impact can also be positive or negative or both). Haigh and Hazelton (2004), Boatright (2006), Gallarotti (1995) and Sjöström (2004) will mainly be put in use here.
- A *role* (as in the role of ethical funds) determines the position and function of ethical funds from a *sustainability context*.

Through the model of who-why-what, this study will determine which actors, driving forces and impacts are involved in the interviewed companies’ environmental and ethical work in order to assess which are being the primary ones. The empirical procedure provides answers about companies’ views on themselves, on environmental and ethical issues and the companies’ work with these, and their views on KPA Pension and ethical funds.

4 Ethical funds and the socially responsible investment market

The thesis has so far provided the theoretical inputs regarding SRI and ethical funds. In order to continue to assess what the role of ethical funds as a driving force in business is, the following section will present further general information about ethical funds and the ethical fund market in Sweden and globally. This section ends with a brief description of KPA Pension and a comparison between the ethical fund actors KPA Pension, Banco Fonder and Swedbank Robur.

4.1 Ethical funds

4.1.1 Types of funds

What is a *fund*? Usually, an investment manager receives capital from a fund share owner (that can be individual or institutional) and invests it in shares, bonds or other financial instrument. The fund manager then monitors the market and manages the fund portfolio in relation to interest fluctuations of the current index (Skillius, 2002). In Sweden, there are different types of funds:

- **Balanced funds** (“blandfonder”): funds that invest in both stocks and bonds
- **Bond funds** (“räntefonder”): funds that invest in interest-bearing bonds
- **Fund-of-funds** (“fond-i-fonder”): funds that invest capital in other funds
- **Hedge funds** (“hedgefonder”): funds that have a relatively free assessment regulation than other funds, thus not necessarily following the interest fluctuations on the market
- **Index funds** (“index fonder”): funds that follow a certain index
- **Mutual / equity funds** (“aktiefonder”): funds that invest in stocks.
- **Sector funds** (“bransch fonder”): funds that invest in specific industrial sectors.²⁰

4.1.2 Types of ethical funds

The common denominator for ethical (or SRI-) funds is that they integrate *social*, *ethical*, *economical* and *environmental* issues. One of many definitions of ethical funds is financial administration of private or institutional capital that does not have a percentage share in industries that are involved in production and/or distribution of tobacco, weapons, oil extraction, and experiments and testing on animals and child labour (see **figure 1**) (Skillius, 2002). Most of the ethical funds on the market today are mutual/equity, bond or balanced funds. The ethical funds are categorized in accordance of what they exclude/incorporate. Sometimes, a fund has been named after the screening method that has been performed before the investment:

- **Avoidance funds**- funds that evade certain types of companies whose actions are considered to be clashing with the fund’s ethical criteria.
- **Best-in-class funds**- funds that invest in companies that in a certain way stand out as a good example regarding ethical work in comparison to other companies in a same industrial branch.
- **Environmental (-technique) funds**- invest in companies that, as a sole purpose, are working to improve the physical environment

²⁰ http://www.fondspara.se/html/olika_typer.html 2006-11-07.
http://www.fondbolagen.se/upload/categories_2006_001.xls 2006-11-07.
http://www.fondbolagen.se/upload/kategorier_2006_002.xls 2006-11-07.

- **Ideal funds**- such funds donate a certain amount of the fund's return or managerial earnings to an ideal purpose.
- **Influential funds**- funds that actively try to affect a company in a positive direction regarding ethics. A company has often got "halfway" by fulfilling *most* of the fund's criteria but is yet to be fully accepted as an investment object (Skillius, 2002; 2005).²¹

4.2 Ethical funds in Sweden

4.2.1 Swedish fund system

The Swedish parliament decided in 1998 to reform the Swedish pension system. One part of the new premium pension system meant that 2.5% of the income would be placed in funds.²²

Even if the amount might seem diminutive, the capital of Swedish funds has increased from 855 to 1160 billion SEK between 2000 and 2005 (Fondbolagens förening, 2005). Since the slight de-regulation of the pension fund saving system, the Swedish state plays a relatively smaller role in the process. This resulted in an increase of choices and more personal responsibility and involvement in pension fund saving, and furthermore, increased fund savings.²³

In Sweden, 94 % of the populace between age 18 and 74 is saving and investing in funds. Approximately 66% are saving in private funds and 77% have funds that are exclusive of PPM (the premium pension fund) (Fondbolagens förening, 2005). Of the total amount of fund saving in Sweden, households are the largest investors with 38% of the fund market whilst Swedish corporations have 13%. The rest of the fund market consists, among others, of insurance funds.²⁴

Autumn of 2000 was the first time premium pension savers could invest in funds. The possibility to choose funds in insurance funds for the occupational pension has also increased. Pension saving (insurance fund, PPM and other) was representing, in late 2005, about half of the fund- based wealth of households in comparison to 25% in 2000 (Fondbolagens förening, 2005). There are several possibilities and types of saving and investing in funds in Sweden. Some of the examples are:

- Swedish households (household saving)
- IPS (Individual Pension Saving)
- Unit linked (insurance)
- PPM (Premium Pension Authority)
- Non-profit institutions serving households
- Swedish corporations (companies' own saving)
- Other, minor types of saving.²⁵

Mutual funds is the most common type of fund saving. Approximately half (54%) of people saving in private funds or via their income pension are saving in mutual funds followed by 18% saving in balanced funds and 14% saving in bond funds. Fund-of-fund and hedge fund types are still relatively uncommon in Sweden (Fondbolagens förening, 2005).

²¹ <http://www.etiska-fonder.se/kategorier.php> 2006-09-30.

²² http://www.konsumentverket.se/Documents/Rapporter/2000/2000_17.pdf#search=%22andel%20pensionssparande%20av%20totalt%20fondsparande%20%20%22 2006-11-05.

²³ <http://www.amfpension.se/templates/Page.aspx?id=6820> 2006-11-05.

²⁴ <http://www.fondbolagen.se/StatistikStudier/Statistik.aspx> 2006-11-05.

²⁵ <http://www.fondbolagen.se/English/Statistics/FundSaving.aspx> 2006-11-07.

4.2.2 The ethical funds

In mid 2005 there were approximately 85 ethical funds in Sweden, and 67 of these registered in Sweden, meaning funds with capital solely invested in (from) Sweden (Skillius, 2005). Together, the funds managed 64 billion SEK. In 2002, the ethical funds stood for about 5.1 % of the total Swedish fund savings (Skillius, 2002). In relation to the total Swedish fund saving the ethical funds stood for about 4.8% in 2005 (Skillius). According to KPA Pension, that amount lies on 6-7% today. The funds described here are the most common types of ethical funds in Sweden, most of them being mutual or balanced funds.

The first ethical fund in Sweden was Ansvar Aktiefond, launched in 1965 (Sjöström, 2004). The creators of Ansvar Aktiefond were involved in the boycott of alcohol, tobacco but also the South African trade activities during the Apartheid (Jantzi Research, 2003). Since 1 January 2001, the five largest state-controlled pension funds in Sweden have been forced by new legislation to include environment and ethics in their investment policy and report to the government annually with respect to how they are fulfilling this policy.²⁶

After the launch of the Ansvar Aktiefond in 1965, it would be another 15 years until a second ethical fund (available to the public) was established in Europe, and this time by the Church of Sweden. On the European arena, Sweden is still in the forefront, where it together with United Kingdom, Belgium and France accounts for the majority of the available ethical funds (Sjöström, 2004; Bartolomeo and Familiari, 2005).

The short-term returns of the Swedish ethical fund market varied between approximately 12% to -0.1% between 2003 and 2004, yet in 2005 all ethical funds were providing negative returns (Skillius, 2005). The reason for this development can be related to the general cooling of the fund market since the capital holding of ethical funds does not differ from conventional funds. Furthermore, a part of the values that ethical funds provide are not shown in figures or returns. These values are, among other, CSR influence on a company that is being invested in (Skillius, 2005).

4.3 Swedish fund market related to other markets

4.3.1 Globally

In the United States, between 2003 and 2005, the number of mutual funds and joint products tracked increased slightly from 200 to 201. Over the past ten years, mutual funds have been the fastest growing segment of SRI. Assets in ethical funds alone increased from \$12 billion in 1995 to \$179.0 billion in 2005 (Social Investment Forum, 2005). Asia has begun to accept SRI more recently. With more than 100 billion yen (approx, USD\$ 870 million) in a dozen SRI funds, Japan remains Asia's leading market for SRI. More than a dozen screened funds are also available in Malaysia, where Islamic Shariah principles have since long been incorporated into financial management (Social Investment Forum 2005). In Australia, SRI managed funds (mutual) increased dramatically from ten funds in 1996 to 46 funds in 2001. By 2002 there were 74 SRI funds in Australia, representing AUD\$ 1.8 billion in assets (Jantzi Research, 2003). In Canada there are approximately 30 SRI funds, holding approximately CAN\$ 5.0 billion in SRI assets and approximately 5% of the total mutual fund market. This is mainly due to support from public pension plans and institutional investor asset growth (Jantzi Research, 2003) (Social Investment Forum, 2005).²⁷ The International Finance Corporation (IFC) estimates that SRI assets in emerging markets reached \$2.7 billion in 2005. The rapid growth of SRI assets and SRI management in countries such as Brazil, South Africa and some parts of Asia starting to become well documented (Social Investment Forum 2005).

²⁶ http://www.jantziresearch.com/index.asp?section=11&level_2=17 2006-11-07.

²⁷ <http://www.socialinvestment.ca/documents/SRIMutualFundsSept2006.pdf> 2006-12-07.

4.3.2 Europe

With combined assets of more than €360 billion and a diverse range of social investing products and services, Europe is one of the world's most advanced financial markets for SRI. Pension funds play a leading role in SRI, according to one report from EuroSIF (Social Investment Forum, 2005). This is a trend that can be observed on most of today's SRI markets. On 30 June 2005 there were 375 green, social and ethical funds operating in Europe, with an increase of about 6% over the last 12 months and over eight thousand per cents increase since the early 1980s (see **figure 2**) (Bartolomeo and Familiari, 2005).

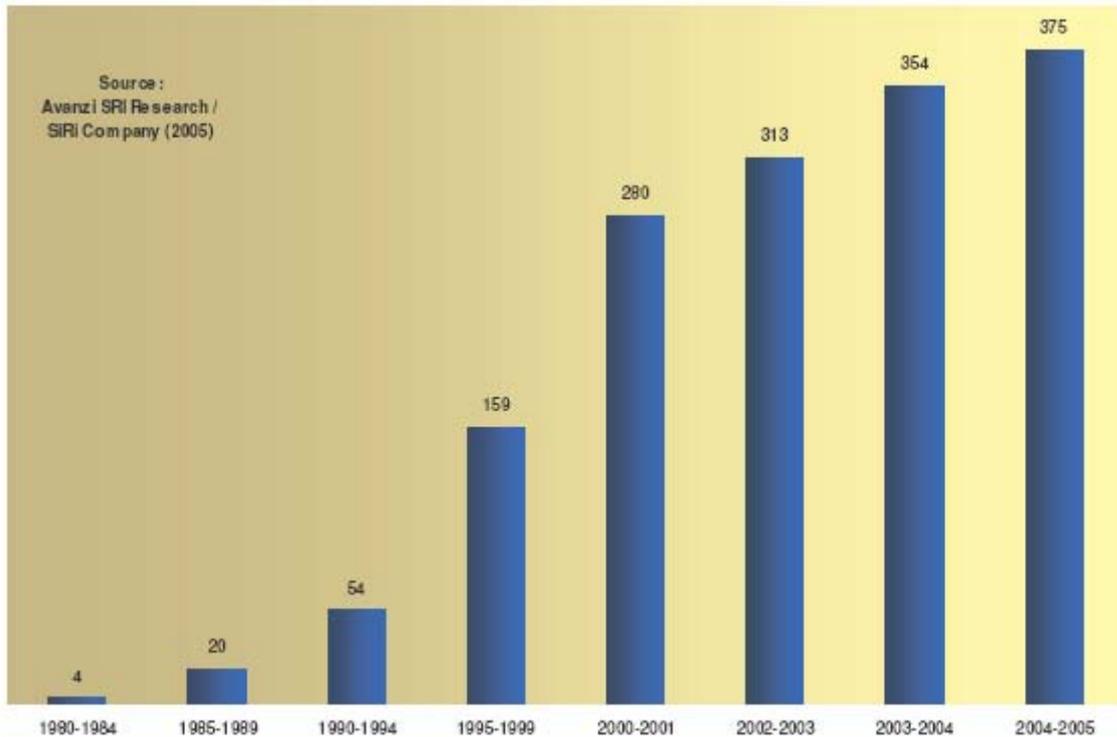


Figure 2 - Amount of ethical funds in Europe (Bartolomeo and Familiari, 2005)

The total amount of ethical fund assets grew by about 27%, from €19.0 at mid 2004 to €24.1 billion at the end of the second quarter 2005. The total amount of assets of these funds dropped 16% (from €4.5 to €2.2 billion) between 2001 and 2003 due to a difficult period in the financial market (see **figure 2**). The United Kingdom has by far the most funds and the largest SRI assets in Europe, about 33.2% of the total European assets (see **figure 3**). France and Belgium have become the fastest growing countries by asset under management. (Bartolomeo and Familiari, 2005).

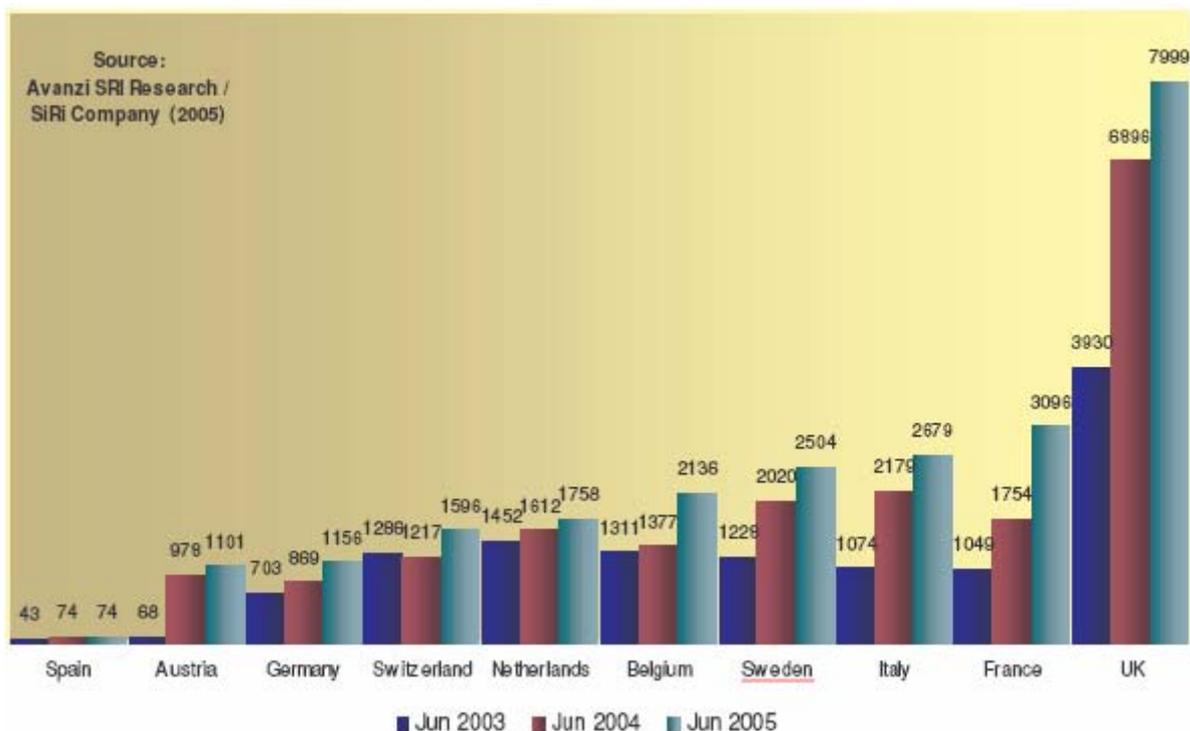


Figure 3 - European ethical funds assets (million €) (Bartolomeo and Familiari, 2005)

4.4 Ethical fund actors in Sweden

There are several fund companies that are comparable to each other regarding market share and assets and that offer ethical funds to private and institutional investors. Three of these companies are KPA Pension, Banco Fonder and Swedbank Robur. Together they cover more than 80% of the total ethical fund market in Sweden (Skillius, 2005).

4.4.1 KPA Pension

When KPA Pension, as the former KPA Fonder AB, started its activities in 1998 it was (and still is) the first and only Swedish pension fund company with an entirely ethical fund placement. In the year 1998, KPA Pension was certified in ISO 14001. 60 % of KPA Pension is owned by Folksam Ömsesidig Livförsäkring (which in turn is owned by the Swedish Consumer Cooperative and labour unions) and 40% owned by Sweden's Municipalities and County Councils. KPA Pension is also a member of Global Conduct, which is an initiative to support Swedish companies' efforts in human rights, fundamental working conditions, the fight against corruption, and a better environment. The initiative stems from the international conventions and standards for companies that have been stated in OECD's guidelines for multinational companies and in the ten principles of the UN's Global Compact. KPA Pension has a council that makes sure that the ethical criteria are being followed. The council consists of analysts specialized on ethics, environment and corporate governance.²⁸ KPA Pension, with approximately 360 employees, manages 45 billion SEK for 900 000 customers through Folksam, offering fund saving to private persons or management of pension savings through the ethical funds.

²⁸ http://www.kpa.se/mallar/Sida_699.aspx 2006-09-24.
http://www.kpa.se/mallar/Sida_691.aspx 2006-09-23.
http://www.kpa.se/mallar/Sida_838.aspx 2006-09-23.
http://www.kpa.se/mallar/Sida_596.aspx 2006-09-23.
http://www.kpa.se/mallar/SidaForstaNiva_710.aspx 2006-09-23.

KPA Pension has various types of criteria (see *appendix*) and demands according to which corporations are selected. The first instance is the so called *negative* or *excluding criteria* that list types of industries that KPA Pension does not wish to be associated with. KPA Pension does not invest in industries having more than 1 % or a maximum of 10 million SEK of its annual turnover coming from businesses including tobacco, alcohol or gambling. KPA Pension's ethical criteria do not cover the investment object's own investments; there is no follow-up of any financial issues outside an invested company's operative sphere. Industries associated with weapons are completely excluded during a screening according to zero tolerance. The second instance involves so called *positive* or *influencing criteria* that lists types of actions which, if followed, show that a corporation is on the right road. These criteria are used as tools and incentives for promotion of ethical, social and environmental engagement.²⁹ Other criteria that KPA Pension considers in the choice of corporations are shown in the so called demands on investment objects that are environmental demands and which are linked to KPA Pension's own ISO 14001- certification.³⁰ There is also an ownership policy which states that KPA, in its capacity as a stake owner, shall entail an active influence of companies through its investments (KPA's fonder - Halvårsredogörelse 2006). KPA Pension has four ethical fund portfolios with different levels of risk, and has often less than one per cent holding in *most* of the companies in the ethical funds (KPA Pension, 2006):

- *KPA Etisk Aktiefond* - high risk

The fund is an actively managed ethical mutual fund that invests a minimum of 75% in shares noted in Sweden and the rest of the world. The fund has an index rate of 1.3% in 2006, (a development of 5.8% during the last five years), the portfolio holding between approximately 0.1 and 5.1 % in each company invested in.

- *KPA Etisk Blandfond 1* - medium-low risk

The fund is a managed ethical balanced fund that invests 55% in bonds, 10% in foreign stocks and 35% in stocks noted on Swedish indexes. The fund has an index rate of 1.9% in 2006, (a development of 42.1% during the last five years), the portfolio holding between approximately 0.1 and 5.0 % in each company invested in.

- *KPA Etisk Blandfond 2* - medium-high risk

The fund is a managed ethical balanced fund that invests 1/3 of the fund capital in Swedish bonds, 1/3 in foreign stocks and 1/3 in stocks noted on Swedish indexes. The fund has an index ratio of 0.6% in 2006, (a development of 43.7% during the last five years), the portfolio holding between approximately 0.1 and 3.6 % in each company invested in.

- *KPA Etisk Räntefond* - low risk

The fund is a managed ethical bond fund that invests in various kinds of bonds to provide a long-term solid return. The fund has an index rate of 1.0% in 2006, (a development of 1.3% during the last five years).

(KPA's fonder - Halvårsredogörelse 2006)

²⁹ http://www.kpa.se/mallar/Sida_697.aspx 2006-09-23.

http://www.kpa.se/mallar/Sida_698.aspx 2006-09-23.

³⁰ http://www.kpa.se/mallar/Sida_692.aspx 2006-09-24.

4.4.2 Banco Fonder

Founded in 1975, the fund company Banco Fonder manages 17 billion SEK for 150 000 customers, having approximately 400 employees. The company is a part of ABN AMRO Asset Management that is owned by ABN AMRO Bank. Banco Fonder is, like KPA Pension, a member of the UN initiative Global Compact and has provided ethical investment alternatives since 1993. Banco Fonder also has an ethical board that works with the company's principal standpoints and complex ethical issues. The company's ethical delimitation states that 95% of an invested company's turnover must come from businesses that have no connection to distribution or production of weapons, tobacco, alcohol or pornography. The criteria for Banco Fonder's ethical investment are placed in three categories. The first incorporates human rights, labour conditions and corruption; the second environment and the last one refers to corporate routines and policies in regard to UN conventions. These criteria are based on international UN and Organisation for Economic Co-operation and Development (OECD) agreements. Apart from the criteria, the company engages in dialogue with the invested companies through "active influence". Banco Fonder systematically follows up the invested companies' environmental work and CSR engagement and communicates these issues in order to improve the companies' performance from a sustainable point of view.³¹

Banco Fonder offers both individual fund saving and pension saving through both ethical and conventional funds to its customers. The ethical funds stand for 75% of the entire fund assets through 11 Swedish ethical funds, 6 foreign ethical funds and two ethical balanced funds. When Banco Fonder rated five of its most successful funds at the moment, two ethical mutual funds were placed on the positions 4 and 5; Banco Ideell Miljö fund and Banco Svensk Miljö fund with an index rate of 0.75% and 0.76%, respectively, have a relatively high risk and a steady positive rate during the past five years. These funds have between 6 and 8% in the largest investment holdings, mostly Swedish companies.³²

4.4.3 Swedbank Robur

Swedbank Robur, based in 1967, is a subsidiary to the Nordic group Swedbank, one of the largest banks in Sweden. Swedbank Robur employs approximately 300 people and has 2.8 customers investing in funds. The company manages 350 billion SEK of which 9 billion are ethical and environmental fund assets.³³ Its funds and management are certified according to Global Investment Performance Standard (GIPS). Swedbank Robur has an ethical council which is active since 1996. The council analyzes and develops criteria that are based on the UN declaration of human rights, the International Labour Organization (ILO) conventions, the UN initiative Global Compact and a few others. It also engages in dialogues with companies invested in to communicate ethical and environmental issues, according to the stated ownership policy. Swedbank Robur also actively influences its investment objects through shareholder meetings. The companies invested in are actively screened according to

³¹ <http://www.banco.se/ansvarsfullaplaceringar/aktivpaverkan.aspx> 2006-12-16.
<http://www.banco.se/ansvarsfullaplaceringar/etiskaplaceringsregler.aspx> 2006-12-16.
<http://www.banco.se/ansvarsfullaplaceringar/etiskaplaceringsregler/kriterier.aspx> 2006-12-16.
<http://www.banco.se/ombanco/etisktrad.aspx> 2006-12-16.
<http://www.banco.se/ombanco.aspx> 2006-12-16.

³² <http://www.banco.se/ansvarsfullaplaceringar/etiskafonder.aspx> 2006-12-16.
<http://www.banco.se/fondoversikt/bastafonderna.aspx> 2006-12-16.
<http://www.banco.se/aktuellakurser.aspx> 2006-12-16.
http://www.banco.se/press/pressarkiv/20040923_FondbolagEtik.aspx 2006-12-16.

³³ http://www.robur.se/RT/OrdinaryPage_635.aspx 2006-12-17.
http://www.robur.se/RT/OrdinaryPage_542.aspx 2006-12-17.

“sustainability” (influencing) and “negative” (excluding) criteria. The negative criteria avoid businesses such as weapons, tobacco, alcohol and pornography (Robur Ethica, 2006).³⁴

The company has three ethical funds for private investors, three for institutional investors and three for the Swedish Church. These funds are gathered under the name “Ethica” (Robur Ethica, 2006) and all have mixed (positive) index rate and return. Ethica consists of mutual, balanced and bond funds that all predominantly invest in Swedish companies in which they hold between 1.0 and 9.0%.³⁵

4.4.4 A short comparison between the three fund companies

The large difference between KPA Pension and Banco Fonder and Swedbank Robur is that KPA Pension primarily offers pension saving through ethical investment while the other two companies offer direct ethical fund saving. There are a few parameters where the three largest Swedish fund companies differ and relate. KPA Pension is the only fund company among the three that offers only ethical funds and that is environmentally certified. At the same time, KPA Pension is the company having fewest ethical alternatives, while Banco Fonder has the highest amount of ethical choices by offering 11 different ethical funds to its customers. KPA Pension has the leading ethical fund asset whilst Swedbank Robur stands out with its 2.8 million customers in total. All of the companies work with ethical, social and environmental issues through their influencing criteria and communicate these issues with their investment objects through active ownership. All three fund companies also have dynamic cooperation with various comities, declarations and initiatives. Both the influencing and the avoidance criteria are quite similar in their composition and use. Experiments or testing on animals is not an issue in neither of the three companies’ screening criteria. Banco Fonder and Swedbank Robur have approximately the same percentage of largest holding with around 8%, whilst KPA Pension’s largest holding is about 5% (see **table 2**).

³⁴ *ibid.*

³⁵ http://www.robur.se/RT/OrdinaryPage_635.aspx 2006-12-17.
http://www.robur.se/RT/OrdinaryPage_542.aspx 2006-12-17.

Table 2 – A quick comparison

	KPA Pension	Banco Fonder	Swedbank Robur
Founded in (year)	1922	1975	1967
Largest owner	Folksam	ABN AMRO Asset Management	Swedbank
Employees	360	400	300
Customers (total)	900 000	150 000	2.8 million
Certification	ISO 14001	None noted	None noted
No. of ethical funds	4	11	9
Conventional funds	No	Yes	Yes
Ethical (fund) assets	45 billion SEK	17 Billion SEK	9 billion SEK
Largest holding of an investment object (ca)	5%	8%	9%
Active ownership	Yes	Yes	Yes
Avoidance criteria			
• Alcoholic beverages	Yes	Yes	Yes
• Weapons	Yes	Yes	Yes
• Tobacco	Yes	Yes	Yes
• Pornography	Not specified	Yes	Yes
• Gambling	Yes	Not specified	Yes
Active work with			
• Child labor	Yes	Yes	Not specified
• Experiment on animals	Not specified	Not specified	Not specified
• Corruption	Yes	Yes	Not specified
• Labor conditions	Yes	Yes	Yes
Implemented environmental issues	Yes	Yes	Yes
Collaboration	UN Global Compact, UN human rights declaration, OECD, ILO, etc	UN declarations, OECD, ILO, etc.	Un Global Compact, UN human rights declaration, ILO, amnesty, etc.

5 Results and analysis

This section will, firstly, present the general information about the data collection, the interviewees and the companies. Secondly, it will present the results of the interviews and questionnaire followed by the analysis that will assess the role of ethical funds as a driving force for sustainable business practice through the model of who-why-what. The section ends by providing a conclusion to the thesis.

5.1 Overview

Out of 47 companies asked to take part in the study, 19 participated either through interviewing, telephone interviewing or answering of questionnaire. The “awaiting questionnaire” column in **table 3** means that seven companies showed interest and questionnaires were sent to them, but were never returned to the author.

Table 3 – Participation ratio

Phone-interviews	Meetings	Questionnaires received	Awaiting questionnaire	No answer	No thanks	Total
12	4	3	7	12	9	47

The predominant number of interviewees was well informed, open-minded, articulate and positive. Very few of the interviewees seemed to find both the personal and telephone interviewing slightly unsettling. Despite this, the author feels that the whole process of acquiring information was not affected negatively because of this. Two questionnaires were only partially answered through interviewing, and complementary information could not be acquired within the time frame of the deadline. The answers that were received from these questionnaires are used in the study. Some of the interviewees were not able to answer certain questions and the author was sometimes redirected to seek complementary information among other employees in the company. In some cases, the companies could give several answers to the same question, which means that these results are presented in total, not according to one answer per company.³⁶ Since the questions and their corresponding answers vary in disposition, the answers and the results are presented depending on what type of question it is.

5.1.1 Positions of interviewees within respective companies

There was a wide range of positions of the interviewees: environmental managers and coordinators, CSR managers, combined environmental and CSR managers, directors of sustainability, managers responsible for quality and environmental questions, chiefs of information and corporate relations and/or communications. For most part, these interviewees had high positions within the company and their respective fields of work. There was a variation of knowledge about the companies in question and a varying extensiveness of the interviewee answers. The author came into contact with the interviewees either by finding their contact information through the respective company’s website or by recommendations.

5.1.2 Businesses represented in the survey

There is a broad spectrum of industrial sectors represented in the survey. Most companies are in the industrial/engineering/technology industry. Several types of industrial sectors are represented by only one or two companies, and with respect to their anonymity, they will be presented as general production industry as will the few service- providing companies in the survey.

³⁶ This refers to the tables 7, 8, 9, 10.

5.2 Results presentation

This section will provide a brief background and presentation of the results. It is important to state that the format that the results are presented in does *not* follow the outline of the questionnaire.

Types of certificates among the companies and the period of time they have been certified

Since the majority of companies are groups or corporations, it is difficult to label the entire companies as environmentally certified. Many subsidiaries inside a group can have a certificate, and this is something that varied between 19 and 95% of complete certification of the entire group (see **table 4**). There were four unspecified answers to the question regarding “how long”.

Table 4 – Types of certifications and how long the companies have had these

Type	Amount of companies	Since 1-3 years	Since 3-6 years	Since > 6 years
ISO 14001	7	2	1	4
ISO 14001 and 9000	3		1	2
Own EMS	4	2		
None	2	1		
Other	2			1

The author was able to acquire which type of certification the companies had through their respective websites, yet the point of this question was to make the companies themselves give a more extensive information. The prevalent certification of the companies is indisputably of the environmental management system ISO 14001, followed by the quality system of ISO 9000 and the companies’ own environmental system (EMS) on third place.

Regarding the business size of the companies (large and very large), this is not very surprising. ISO 14001 is one of the best known and credible environmental certificates today, introduced in 1996 (Piper et al., 2004). It is often considered a relatively expensive system for smaller and medium-sized companies, making it most fitting for larger, more complex companies (compare Piper et al., 2004). Most of the ISO 14001 certifications among the companies in the survey are older than six years, some stretching back eight or nine years. Most of the companies that have environmental certification have had it more than three years. Two companies, of which one has had ISO 14001 certification before, are on the way to acquire ISO 14001. A third company has had ISO 14001, yet has no plans of acquiring it again.

Reason for certification

An own will/internal demands for certification, customers and a striving for a better order in are the most exemplified driving forces for environmental certification (see **table 5**). Only one company feels that the reason for the certification has changed from being solely customer driven to being a striving for improved corporate credibility. One company exemplified image preservation as a reason for the certification. The wish to gain better control over own operative work can be seen as a pure practical driving force. Five companies did not specify an answer.

Table 5 – Reason for certification

Main driving force for certification	Number of companies
Internal demands/ will	6
Customers	4
Order in business	3
Preservation of image	1
Unspecified	5

Codes of conduct among the companies

All 19 companies have an ethical policy/ code of conduct. Since an environmental policy is one of the environmental demands from KPA Pension on the investment objects, the author did not specifically ask for that. Also, through the ISO 14001- certification, most companies have environmental policies stretching back at least as far as the certifications themselves (Piper et al., 2004). Interviewees were asked about ethical policies/ codes of conduct. Often, when the question of an ethical policy was posed to the companies, code of conduct was the received answer. Other answers were ethical guidelines, social policies or sustainability policies with an ethical policy incorporated. **Table 6** shows how long the companies have had the codes of conduct. Four companies did not specify how long, but generally for the companies in the study, the time span lies between one and six years.

Table 6 – Ethical policies

Ethical policy since	Number of companies
1-2 years	7
3-6 years	5
“Recently”	2
“Since many years back”	1
Unspecified	4

The information channels that the companies use in order to remain up to date regarding new environmental law binding demands

All 19 companies answered that they use channels of information and specified which channels they were using. Law coverage, industry associations, newspapers/newsletters/magazines, councils/networks of companies and organizations and internet were the main channels and means of information gathering in order to remain up to date (see **table 7**). Only one company mentioned “competitors” as a channel of information (“other”).

Table 7 – Types of used information channels (see also footnote 36, page 28)

Most exemplified answers	Amount
Law coverage	6
Industry associations	6
Newspapers/magazines	5
Councils/ networks	5
Internet	3
Authorities	3
Investors	3
Auditors	2
Company management/ internal elements	2
Other	3

The meaning of the terms “responsibility”, “ethics” and “CSR” to the companies

Defining these questions is very difficult, which that was one of the points with this question. The author wanted to see how the companies related to these aspects in order to acquire a broader view of the companies in general. Often, these terms were understood roughly as the same by the companies, and sometimes it was not easy to define them; the answers were many times vague or simply lacking. For some, “ethics” and “CSR” were the same, for others “ethics” and “responsibility”. Two companies did not answer these questions. For most companies that answered, “responsibility” meant social, ethical and environmental issues, sustainable business and taking into consideration the needs of future generations. “Ethics” often meant “responsibility” and “following of certain moral guidelines”, while “CSR” was “being a good citizen” and “thinking about future needs”. One company answered that it sees

CSR as one of the “pillars of sustainability”. Some answers had more or less substance; for example, some companies partly referred to the definitions stated in various UN declarations, GRI or Global Compact³⁷ (this is aside from what is noted in **table 8**) instead of stating their own definitions. **Table 8** provides examples of definitions given by the companies.

Table 8 – The meaning of responsibility, ethics and CSR (see also footnote 36, page 28)

Responsibility	Ethics	CSR
Following of ethical guidelines	Taking a broader responsibility	Being a good citizen
Production should not affect the environment	A try to understand moral dilemmas	Sustainable production, being a good citizen
Attend to one's affairs in good manner	To save lives	Responsibility for employees and customers
Save the resources to future generations	Taking responsibility, conviction	One of the pillars of sustainability
Priorities, transparent communication, human rights, ethical business practice	Frames and guidelines for approaching various questions	A sister- issue of environmental questions

The companies’ view on environmental and CSR issues related to each other

Seven companies said that they separate environmental and CSR issues, while seven companies said that they do not. Five companies answered “sometimes” thus revealing no specific pattern in this matter. The answer “sometimes” refers to different ways of working with the issues; that they often need to be tackled differently or that the companies view the matters differently, which eventually leads to the issues being separated.

The companies’ view on environmental work and CSR linked to financial profitability

The majority of the companies (16) answered that they consider environmentally sound practices and CSR to be consistent with financial profitability. Three companies answered “sometimes/ partially”, taking into consideration energy consumption; that “green” energy costs more. The companies often made a connection between profitability and environmental/CSR work. The reason for a positive attitude was that the companies felt that environmental engagement saves money in the longer term or that it even enhances profitability by lowering future risks in many different ways.

The degree of integration of environmental work and CSR in the companies

Five companies answered that only their environmental work is integrated into the company, while one answered only and “partially” CSR. Two companies answered “both partially” while 11 companies answered “both”.

The grounds for the companies’ CSR and environmental engagement

The companies answered partly “why” they have environmental and CSR engagement and partly “who” influences this work the most (see **table 9**). To the question “who”, the companies mostly answer customers, investors and councils/networks. One company specifically mentioned ethical investors, while another specified that investors were *not* one of the grounds. When answering the question “why” the companies refer mostly to internal will; a will to reduce emissions and a strive toward efficiency/quality.

³⁷ - GRI stands for Global Reporting Initiative and is a system that facilitates corporate transparency and accountability through reporting. www.globalreporting.org
 - Global Compact is a voluntary initiative, a network that works with companies according to ten principles and catalyses action in support of UN goals. www.unglobalcompact.org

Table 9 – “Who” and “why” (see also footnote 36, page 28)

Who	Amount	Why	Amount
Customers	9	Internal driving forces	9
Investors	7	Reduce emissions	9
Councils/networks	4	Efficiency/quality	8
Employees	3	Reputation/image	5
Authorities	3	Law fulfilment	3
The society at large	3	Competitiveness	3

Types of programmes or projects that the companies engage in

All but one company (18) sponsor and support different external programmes and manages own projects, which are both internal and external, on the local or international level (see **table 10**). The allotment between having own projects and supporting other projects is approximately equal in the companies’ answers. Education of own employees in environmental and CSR issues and cooperation with councils and networks of organisations are the most exemplified types of engagement. Managing AIDS/HIV information campaigns in South Africa is another large-scale engagement together with water projects and domicile building in Third World- countries. Anti-corruption projects (both internal and external) and local engagement and youth sponsoring are examples of more uncommon types of engagement.

Table 10 – Corporate engagement (see also footnote 36, page 28)

Most exemplified answers	Amount
Employee education	7
Cooperation/networking with organizations/councils	6
Water/domicile/social projects	5
Sponsoring/organising AIDS/HIV programmes	4
Local engagement	3
Anti-corruption campaigns	2

The companies’ communication of environmental, ethical and social issues to other actors and the degree of influence that the companies are having on various actors according to themselves

As contrary to the question of which actors and driving forces the companies felt were influencing them, this question analyses the companies’ role in influencing other actors. All companies except for one (18) answered that they communicate environmental and CSR issues and many answered *how* instead of *to whom*. The means of communicating are mainly through the companies’ respective websites and reports (externally) and newsletters, own magazines and intranets (internally). Most actors being communicated to are customers, suppliers and own employees, as shown in **table 11**. Authorities, shareholders and universities (“other”) are a few examples of actors to which the companies do not communicate their environmental and CSR work to the same extent. Four companies were either unsure or did not specify their answer regarding influence in this question. The remaining 14 companies can present at least one example of an influenced actor, which for most part are suppliers and competitors, with customers on third place (see **table 10**).

Table 11 – The communication and influence of the companies (see also footnote 36, page 28)

Communication	Amount	Influence	Amount
Customers	4	Suppliers	7
Suppliers	3	Competitors	5
Employees	3	Customers	4
Owners	2	Authorities	2
Other	6	Other	3

The degree of satisfaction with the companies’ own environmental work and CSR

The question of whether the companies are satisfied with their environmental work and CSR proved to be quite difficult to answer. Five companies answered “yes”, five answered “no” and 10 companies answered “partially”. Most companies in that section felt that they either were satisfied but wanted/could do more, or that they were not satisfied but felt that they had done well so far. Most companies answered that the work is a continuous process and that there is always more to be done.

The companies view on perceived effects of the ethical funds

Ten companies feel that the effects of this investment have been positive in some aspects. Out of these ten, four companies also give examples of aspects where effects are unnoticeable. Seven companies present *only* unnoticeable aspects. *Neither* of the 18 answering companies has seen or measured any *negative* effects. Two companies did not answer this question. Positive effects regard almost without exception goodwill, positive responds coming from customers and the general surrounding, and positive change in market share. Answers regarding “no noted” effects refer mostly to financial profitability or market shares.

The companies’ view on KPA Pension and their financial relation with other comparable ethical fund providers

When asked about their views on KPA Pension, some companies answered with the extent of contact they have with the fund company. Four companies see KPA Pension as a partner or/and an investor that is important from a long-term or ethical point of view (see **table 12**), and two of these companies also specify that it at the same time has had little contact with KPA Pension/sees the company as an investor among many. Three companies see KPA Pension solely as an investor among many. Nine companies feel that they have none or little contact with KPA Pension. The prevalent number of companies (13) has relations with other fund companies aside of KPA Pension, both Swedish and international (see **table 12**). Three companies do not have any other financial relation to corresponding ethical fund companies and one company is uncertain. The two fund companies that are most frequently mentioned are Banco Fonder and Swedbank Robur. Two companies did not answer these questions.

Table 12 – The companies’ view on KPA Pension and relation to other fund actors on the market

Response	Amount	Other ethical investors	Amount
Important investor/actor	4	Yes	13
Positive, but little contact/investor among many	2	No	3
Investor among many	3	Not sure	1
Some contact/ no contact/ not sure	8	Unspecified	2
Unspecified	2		

The companies’ views on and knowledge about the ethical fund and its criteria

This question includes the companies’ view on/ knowledge about KPA Pension’s ethical criteria, to what extent the companies fulfil these criteria and how these relate to the companies’ own environmental and CSR work. The answers varied; many companies do not know much about the criteria, while few are involved to some extent. Two companies did not answer this question. Seven companies have no knowledge or relation to the criteria at all, while nine companies have some degree of knowledge about the criteria and feel that they fulfil all criteria without any conflict with their own environmental and CSR work (**see table 13**). These companies often specified that they had the prerequisites for criteria fulfilment without any predicament. One company mentioned that the ethical criteria posed a conflict

with the company’s own work with its certification (ISO 14001 and ISO 9000), yet did not specify how.

Table 13 – The view/knowledge of the ethical fund and its criteria

Response	Amount
Overall positive/ knowledge/fulfilment	9
Not sure	8
Unspecified	2

The elements of knowledge that the companies have acquired during the involvement with KPA Pension and the ethical fund

This question refers to if there is something noteworthy that the companies had experienced or learned regarding CSR or environmental issues through the ethical fund. Two companies did not answer this question. Nine companies answered that they did not learn anything specific, while eight companies specified various positive aspects worth of notice. Examples of positive answers are that issues that were not discussed earlier (meaning environmental and particularly CSR) are now a hot topic in business; the ethical fund providers are important opinion- makers on the market that can help companies understand the importance of these issues; the employees are more positive and engaged than for perhaps a decade ago; the general dialogue of these issues is important and it is important to do what one can.

The companies’ own opinions on the determination of their organizational borders

As a sidetrack, when discussing corporate social responsibility and where that responsibility begins and ends, it was interesting to see how the companies describe their opinion of their own organizational limit. If companies have responsibilities that go beyond that of shareholder profit dividend, how far does the responsibility stretch in that case? Many companies today have a vast chain of suppliers and subsidiaries and outsourced personnel that often make an organizational border, and thus the range of responsibility is difficult to determine (Sweet, 2005). For most companies, the ways to define the limit was relatively easy to determine, but two companies could not give a satisfying answer. Four companies did not answer this question. Of the 13 companies that could answer how they would define a limit, the primary approach was legal or ownership- based. Through legal definition or ownership percentage, a company determines its own organizational limit. Other companies incorporate the whole chain of larger suppliers or look at the market or areas of business in order to define the border by operational work (see **table 15**).

Table 15 – Defining the organizational borders

Through	Amount
Legally	7
Ownership	5
Suppliers	4
Other	2

5.3 Analysis

The questions are grouped as to follow the **who- why- what** analytic model from section 3.7. Under the **who-** section *actors* will be analyzed, under the **why-** section *driving forces* and under the **what-** section *impacts*. Not all questions are possible to analyze according to all sections of this model.

5.3.1 Who?

In many cases, the actors that entail pressure on a company to become certified are customers and/or internal motivation/will. Those are the actors that lie in the primary sphere of stakeholders as theorized by Waddock et al (2002). Shareholders and investors are two actors from that sphere that one could suspect would have a greater role in motivating certification, yet that does not seem to be the case. The actors that are having a large role in shaping the companies' environmental work and CSR according to the companies themselves are customers and investors, the primary stakeholders of a company (Waddock et al., 2002). The companies were not asked to specify how exactly investors are influencing their work or what kind of investors they are. Shareholder activism where investors or shareholders can vote at shareholder meetings in order to promote certain environmental and ethical issues (O'Rourke, 2002a) is not common in Sweden (Skillius, 2002). That leaves open the question of how investors actually influence the companies. Since most companies say themselves that they do not have much contact with KPA Pension, one conclusion is that other investors/actors than KPA Pension (and thus the company's ethical fund) have the strongest impact on their environmental and ethical work. Only one company specifically mentioned ethical investors as an important actor.

The most important actor regarding the interpretation and definition of "ethics", "responsibility" and "CSR" is without doubt the answering company itself, even if several companies did refer to other actor's definitions of these terms. The moral norms of the company are what shape its values and steer its actions (Boatright, 2006). This means that how the company wishes to operate and how it sees itself and the surrounding world is crucial for how it will work with ethical and environmental issues. Most companies are able to place themselves into a larger sustainability perspective, while other companies gave less extensive answers referring to definitions of UN declarations, GRI or Global Compact. If a company works (or says that it works) actively with these issues but cannot define them properly by itself, it could be a sign of a lacking engagement, even if the author feels that there is nothing wrong in being inspired from these institutions. The company itself is also the most important actor when it comes to the view on environmental and ethical issues related to each other and the view on these issues linked with financial profitability. The companies' opinion varies whether the two should be viewed as the same or not, while at the same time a majority of companies feel that economic profitability is consistent with environmental and ethical engagement. The degree of integration of environmental and ethical work in the company and the degree of satisfaction of working with these issues shows that most companies have integrated these issues into their organization and that this work is a continuous process.

Companies actively acquire new updates about environmental and ethical issues, (aside from law coverage and newspapers/magazines) through the actors of industry associations, networks and councils, where they come in touch with other companies and organizations, thus establishing a relation with other actors on the market in order to gain mutual benefit. Authorities and auditors as channels of information are mentioned in very few of the answers and are generally not seen as channels of this kind of information. This result might have a connection to that the companies often have cogent communication with the authorities (legal aspects) and the auditors (reporting), and are therefore not mentioned. The international projects and programmes are often conducted either with other companies and NGOs through international councils or networks, or with the local authorities, meaning mostly secondary stakeholders and social institutions as described by Waddock et al (2002). This is in accordance to Ford et al's (2003) theory that companies tend to cooperate more and compete less (Porter, 1985) regarding these aspects. On the other hand, the information (new regulations, for instance) is rarely company-specific, and one can argue whether this networking and cooperation is natural.

Most actors being communicated to are customers, suppliers and own employees. Authorities, shareholders and universities are a few examples of actors that the companies do not communicate their environmental and CSR work to the same extent. This means that these issues are mostly addressed to the primary stakeholders of companies (Waddock et al., 2002), which might mean that the companies make a prioritising distinction between which actors are important or less important to communicate these issues to. Mostly influenced actors are suppliers and competitors, and in rare examples authorities, the EU and governments. Especially in the production industries, the connection between the company and its suppliers is strong. Because of the tight collaboration between them, there is a pressure of a need to know what to expect from each other. What affects the (often) larger actor, the company, will also affect the chain of suppliers (Waddock et al., 2002). It is surprising that so many companies feel that they have affected their competitors. Whether this is wishful thinking or fact, it may be connected to the networking phenomenon that can be seen throughout the results in this study. What kind of benefit does a company acquire by influencing its competitor? One possible answer can be improved self-image where the influencing company takes on the role of guide and leader in the current position. Actors that are seldom mentioned in these answers are employees, authorities with their regulations and NGOs. Authorities often communicate environmental issues through regulations, which many companies might consider as routine in their work. Few companies answered NGOs as an actor of importance. It would seem as NGOs do not have a larger role in shaping environmental, ethical and social work of companies, at least when they do not put on the role of an investor, as proposed by Cowton and Sparkes (2004).

Just as regarding actors that influence certification and the companies' environmental and CSR work, in the question regarding the effects of the ethical fund on the companies, customers are the prominent actors. In most cases where positive response has been noted, it came from customers who commented on a company's holding in an ethical fund. Ford et al (2003), for instance, identifies customer relations as the most important relationship of any company, something that is noticeable in this case. The work and actions of most companies in this study is predominantly customer- oriented.

KPA Pension is not the sole actor regarding investment in the companies in this study. A majority of companies mention other investors of interest, particularly Banco Fonder and Swedbank Robur. Porter (1985) argues about potential entrants and that a company that wishes to remain in strong position in its niche must set up barriers against its competitors. This study does not compare the various assets of KPA Pension, Banco Fonder and Swedbank Robur per invested company, and thus does not know how "strong" KPA Pension, for example, is compared to the two other fund companies. Yet since there is a general opinion that ethical investing is "good" (Sjöström, 2004), the question is whether competition between various actors is fruitful for the development of SRI, instead of having one grand actor on the market.

The companies in this study clearly show a varying degree of understanding of environmental and ethical aspects, something that is partially shown in their answers of what they have learned from the financial relation with KPA Pension. A minority of companies can specify at least one positive aspect, and most of them relate this to another actors on the market; KPA Pension and employees, to mention two. Those companies that were able to provide and answer to the question of defining the organizational borders, are clearly depending on external actors; legal definitions, ownership percentage and supplier chains.

5.3.2 Why?

Because of the amount of ISO 14001 certifications, many companies are bound to keep up to date with the dynamical and ever-changing laws and regulations (Piper et al., 2004). Apart from these driving forces, customer demands and inner will and initiatives are driving forces for certification. Ford et al (2003) discusses customer relations as two-way relationships, meaning, companies are not only supplying customers with goods and services; they are also receiving demands and feedback, thus developing a complex mutual dialogue that goes beyond financial transactions. Furthermore, Boatright (2006) and Sjöström (2004) argue that an inner will of companies is crucial for environmental work and CSR to continue. In this study, this is reflected in the companies' views on these issues (the connection between environmental and ethical work and financial profitability, for instance) and also the degree of engagement in, for instance, social projects. Also, most companies in the study have adhered to customer demands regarding certification and realised, as they say, the potential of "green business" as Gallarotti proposes (1995). The author has assumed that the driving forces for the ethical policies are the same as for environmental certification, meaning, customer demands and internal company initiatives, since the interviewees often communicated these aspects in the same context.

As for the grounds for companies' environmental work and CSR, the companies often refer to an internal will and incentives, spurred by the company management. The wish to gain better control over own operative work can be seen as a pure practical driving force. Again, company awareness is important, as it many times is a prerequisite to understand and better work with external actors (Sjöström, 2004; Boatright, 2006). Gallarotti (1995) argues as well as refers to Porter (1990, 1991 in Gallarotti, 1995) that companies cannot afford to "stay behind". This is also one plausible reason that companies strive to remain updated about environmental demands and changes in law and also a reason why the majority of companies are not satisfied with their environmental and ethical work, and that most companies seem to have integrated environmental and ethical aspects into their organisation. To lean back and relax means to fall behind in the "green" development. "Not staying behind" is what many of the companies say as well. More and more companies realise the importance of environmental and ethical issues, and that it is smart not going against the grain. Furthermore, the majority of companies consider financial profitability to be consistent with environmental and ethical engagement. This could be another sign that the companies think that the view on this type of engagement as being entirely costly should be reassessed. The seed of engagement in environmental work and CSR may very well have been planted from outside even though the companies speak frequently about an "internal will". It is difficult to determine how much of this engagement actually comes from the companies' own values and how much is an indirect influence from the outside. Nevertheless, ethical funds are not given as an example of such a driving force. Both O'Rourke (2002b, 2003) and Sjöström (2004) mention that SRI funds are highly probable elements when it comes to change of companies regarding environmental and CSR issues, yet in this study that does not seem to be the case (see next section for further discussion).

The law-binding reason to communication of environmental and ethical issues also represents a responsibility toward authorities and certification organs. There is also a communicative responsibility towards customers. Customers and suppliers often wish to remain updated about a company's work, according to the companies themselves and will not be affiliated with a law-breaking or irresponsible company (Sjöström, 2004; Waddock et al, 2002, Chami, et al 2002). One part of the voluntary communication is done in order to improve the company image outwards and to show that the company takes responsibility.

Regarding influence, there was seldom a reason given to why the companies engage in active influence of other actors, but one of the main causes could be self-interest in terms of competitive advantage as proposed by Porter (1985). This takes into consideration that most of the influenced actors are belonging to the primary stakeholder sphere including most of the financial aspects of trade or transaction (Waddock et al., 2002). Those few companies that presented why they actively influence other actors answered that it was important to “show” own engagement outwards, they “felt” that it was necessary to show others the importance of sustainable business.

Why the engagement in projects and programmes? When the reasons were given by the companies, there answer was often a will “do good”, never to “be seen”, as in improving competitive advantage (Porter, 1985), even though one might suspect this to either be a subconscious driving force, or that the companies simply do not wish to speak about economic profit or market shares when talking about this kind of engagement.

In this study, the companies’ view on ethical investors and the ethical funds is rather vague. Those companies that have had contact with KPA Pension or have knowledge about the ethical fund have only positive things to say. This creates a question of how good has the fund company, the actor KPA Pension managed to entail a driving force through the ethical fund as a tool, on the companies? Aside from the generally low knowledge about the ethical funds and the infrequent contact between the companies and KPA Pension, the companies’ tell of positive effects of the ethical funds. At the same time, most companies tell about criteria fulfilment and how they, as far as they know, had all the prerequisites needed to meet the requirements. This means that the ethical funds have had little influence on the shaping of the environmental and ethical work of the companies. Instead, this is something that is attributed to other driving forces, such as customer and investor demands.

5.3.3 What?

A minor connection between type of certification and knowledge about KPA Pension’s ethical fund criteria and relation to KPA Pension was noted. This could mean that complex certifications like ISO 14001 take more time and effort for the companies to work with and that they, because of this, evolve a certain degree of systematic thinking and broader perspective about these issues. The codes of conduct are shown to be a more recent occurrence than the environmental certifications and their environmental policies, ranging back one to six years in time, compared to the certification-connected environmental policies, which range back two to nine years in time. Companies themselves agree that environmental engagement is rooted deeper than CSR and its ethical issues. This becomes obvious as, for instance, the social responsibility standard of ISO 26000 is to be launched in 2008, 12 years after the environmental standard of ISO 14000.³⁸

The web of information around the companies where every actor is gaining information for its own benefit and at the same time provides other with what it knows makes ground for competitiveness and cooperation on a dynamic level as proposed by Luo (2006) and Ford et al (2003). This wide range of actors shows the companies’ engagement and will of creating means of acquiring information. Information gathering, together with communication establishes networks and relationships, where the exchange of new ideas and technology facilitates improved sustainability performance of every actor in the “web”.

An equal amount of companies both does and does not separate environmental and CSR issues. On one hand, it is important that each company works with these issues so that it lies in accordance to, for instance, its operational work. This means that a company should work

³⁸ http://www.iso.org/iso/en/prods-services/otherpubs/pdf/socialresponsibility_2006-en.pdf 2007-02-01

with these issues in a way that feels most appropriate, and in this case separating or not separating environmental and CSR aspects. On the other hand, it is also important that the companies understand these issues from a larger sustainability perspective. Furthermore, most of the companies say that their environmental work and CSR is integrated in the organization. Most companies also feel that environmental work and CSR are consistent with financial profitability is an indication of a change of view; that large companies still see environmental engagement as a cost, but also something comes with profit in the long term (Gallarotti, 1995). Through sponsorships and engagements in programmes and projects it is possible that companies will receive returns in their invested time and money, if not financially then in terms of goodwill. “Costs” or “money” is never mentioned when discussing social engagement of the companies in this study. The prominent aspects that the companies have learned are that environmental and CSR issues are not growing in importance; they are already incorporated in the debate of corporations and sustainability. Employees and the companies themselves have realised the importance and the potential of these issues, and several companies state that they feel that the position of ethical funds providers is important.

Several companies feel that they have influenced competitors positively from an environmental and CSR point of view. This particular aspect does not follow the elements of competitive advantage (Porter, 1985), but rather cooperative networking for mutual benefit (Ford et al, 2003). Furthermore, several companies mention that they have noticed a ripple effect, where one actor on the market influences another, who in turn influences another in a long chain of impacts. This is, not the least, visible among the companies’ suppliers. This means that there is a widespread network of influence regarding environmental and CSR issues instead of a linear effect ending at the smallest supplier. There are the primary stakeholders (Waddock et al., 2002) of customers and investors that have the greatest impact and effect on the level of the companies’ work with environmental and CSR issues, followed by internal driving forces. As stated in the previous section, when the answers regarding driving force are correlated to the answers of the companies view and relation to KPA Pension, the conclusion is that the impact does not come from the ethical funds.

It is important to separate a *driving force* and an *impact*. The ethical funds in this study seem to have an impact on the companies without being a driving force. Sjöström (2004) exemplifies a number of driving forces, such as legislation and risk avoidance, which are forces that actively influence a company’s environmental and ethical work, and the ethical funds do not seem to entail a force that correspond in any way to the ones given by Sjöström. It is also important to make the distinction between ethical funds and the *actors* behind the ethical funds. It is not ethical funds that are having a potential of changing companies per se, but also the investors/actors behind them. Still, ethical funds can be seen as tools through which investors are entailing a driving force on the invested company in order to create a dialogue and make a change, which was the purpose of this study. This produces a conclusion that there are *positive impacts* of ethical funds, but they cannot be considered being *driving forces* for the companies in this study.

The reason for the role of ethical funds in this study might be the varying degree of contact between the companies and KPA Pension. This can be a result that certain companies fulfil criteria without any predicament while others call for more extensive sustainability dialogue. Either has KPA Pension not fully identified the various companies’ needs for discussion about environmental and ethical issues, or the companies have not been successful in taking initiative to create this kind of dialogue they would have wanted. Haigh and Hazelton (2004) argue that the financial assets of the ethical investments are an important factor in the discussion over how SRI influences companies invested in. The general opinion of the companies is that KPA Pension as an ethical investor plays an important role in the environmental and ethical discussion, and that the dialogue between the companies as

investment objects and the ethical fund company is valuable and important. The companies have experienced positive impacts and effects of the ethical funds such as increased goodwill, market share and positive feedback from customers. The problem is, as Haigh and Hazelton (2004) argue, that ethical funds are sometimes considered *not* to financially outperform their conventional counterparts. As O'Rourke poses (2002b, 2003), it is the very responsible investments and its responsible financial incentives that have a potential of changing companies toward sustainable business practices. At the same time, the "soft" values (like goodwill) tend to disappear rather easily when only economical elements are considered, as shown by Skillius (2005).

5.4 Conclusions

- The ethical funds in this study cannot be considered having the role of a *driving force* when it comes to promoting sustainable business practice.
- Customers and investors showed to be the main *actors* that entail *driving forces* on a company regarding their environmental and ethical work in most of the questions presented and analysed. The companies in this study work mostly according to own *driving forces* based on their values regarding environment and CSR issues.
- Even though KPA Pension does not seem to entail a direct *driving force* through the ethical funds upon the companies, there are still positive and important *impacts* and effects of the ethical funds that the companies have experienced in form of customer feedback and increased goodwill and market share. The ethical funds can thus be said to have an *impact* without being a *driving force*.
- The companies in this study also feel that the dialogue and contact with KPA Pension is valuable and important. To preserve the visible positive effects of the ethical investment, both actors should strive to improve their communication and cooperation.

6 Discussion and implications

This section starts by discussing the findings and the conclusions from the result presentation and analysis and how they relate to the purpose of what role as a driving force the ethical fund have in influencing more sustainable business practice. The section continues with a critical reflection and implications, which are aimed to the companies and investors like KPA Pension. They specify how this thesis can be of use to these actors and what kind of knowledge that can be drawn from it. Examples for future studies end this section.

6.1 Discussion

It is possible that a certain type of operational working and thinking (ISO 14001) makes companies more open- minded and makes it easier in the future to relate to broader aspects of ethical issues (Russo and Fouts, 1997 in Barnea et al, 2004; Smart, 1991 in Gallarotti, 1995). This is reflected in those companies' knowledge of and relation to KPA Pension's ethical funds. Regarding CSR, the companies tend more to engage in this type of questions by themselves while ethical investors, such as KPA Pension, are only mentioned by one company as being an important actor. Customers, investors and shareholders are actors that exert driving forces and influence the companies' environmental work through the tool of certification.

Apart from customer and investor pressure, there is an inner force of will, an understanding that is related to company image and future concerns, that steers how environmental work and CSR will be conducted. Customers do not wish to be associated with a polluting and unethical company (Gallarotti, 1995), and companies do not wish to stay out of business (Waddock et al, 2002). Companies in this study feel that investors are an important actor and what they do, affects them. Yet since the companies have not had much contact with the ethical fund's underlying actor, the investor KPA Pension, the ethical funds have not played a significant role. This is evident as the companies talk about criteria fulfilment, which was met without any problems, and how the companies had the prerequisites to live up to all demands. This means that the companies have not been forced to change their behaviour in order to be invested in ethically, and that the ethical funds have not been a driving force through which KPA Pension has influenced the companies' environmental and ethical work. Instead, this is something that is attributed to other driving forces. On the other hand, if the companies were not to continuously fulfil the ethical criteria, they would be excluded from the holding. Some authors argue that holding percentage is important; larger asset percentage is connected to more influential power. This might be true regarding shareholder voting, but since companies must follow and fulfil ethical criteria in order for ethical investors to invest in them, the criteria, and not percentage of asset holding, should be the main factor that steers the potential of influence of investors.

Most companies do not have any extensive notion about the ethical fund and its criteria, which corresponds with the low rate of communication with KPA Pension. There is a possibility that KPA Pension's funds easily disappear in the mass of investors, and even ethical investors (Banco and Robur), thus possibly weakening the "exclusiveness" of the ethical fund dialogue. Companies also feel that they have already fulfilled the criteria. This could contribute to the lack of communication meaning, "there is no need for further dialogue". However, regarding their own environmental and CSR work; the companies state that they feel that there is always more to be done.

Ethical funds of KPA Pension are at best, recognized by a company, and they do not seem to have a large influence or be a driving force for the companies' work with environmental and ethical issues This result is in disagreement with Sjöström (2004) who theorizes that it is highly probable that companies would change their behaviour to live up to

ethical investor criteria as well with O'Rourke's conclusion that "companies are affected by the actual framing philosophy of the fund, its criteria and assessment techniques" (2002b:692). There are, as mentioned, positive impacts or effects of the ethical funds and the companies also feel that there is a valuable dialogue about environmental and ethical issues, and that KPA Pension plays an important role as an ethical investor. Companies see increased goodwill and market shares, and positive feedback coming almost exclusively from customers. Those are elements that, as argued by Gallarotti (1995), just as important as profit and financial returns.

6.2 Critical reflection

The interviews and the questionnaire provided the author with an extensive overview that comprised general and specific issues. Some of the questions resulted in similar answers, which means that the questionnaire could have been shortened and made more effective. More specific questions about, specifically, ethical funds would also have been favourable. The various organizational positions of the interviewees are both strength and a drawback regarding the type of answers. Many times the answers were extensive, yet the knowledge about the issues asked, and the ethical funds foremost, was obviously lacking. In few cases, the author had to seek complementary information elsewhere inside the company. Also, since the author had KPA Pension "in the back", one can suspect that the interviewees felt pressured to put the fund company and their own companies in good light through their answers instead of presenting possible negative aspects. Still, the tool of anonymity provided a good opportunity to receive as extensive and openhearted answers as possible. The different interview techniques could also have contributed to the variation in answer quality. The frequency of the incoming answers is another element worth taking consideration to: out of 47 companies (*Swedish* companies) asked, 19 participated, which means that the applicability of this study on the field of ethical funds is rather narrow. The delimitation to large and very large companies is another bottleneck when it comes to the use of this study, as it leaves out medium companies that can belong to the corporate sphere and thus become object of ethical investment.

The author's ambition was to sense the response to environmental and ethical issues and the ethical funds by the companies. The result is highly theoretical since no, for instance, measurements or calculations were conducted. Some of the theories used in this thesis argue that shareholder voting is an important tool when it comes to changing companies. The fact that shareholder voting about ethical and environmental issues in Sweden is not nearly as common as, for instance, in the United States (Skillius, 2002), adds to the criticism of the applicability of the theory used in this thesis. Furthermore, earlier studies about ethical funds are mostly conducted outside Sweden and are thus another subject of criticism regarding this study's applicability. Furthermore, even though this thesis covers many of the various actors and driving forces around a company briefly, the focus lies entirely on the ethical funds and their potential to change corporate practices. It is important to remember that ethical funds are not the sole effect or force that constitutes the sustainability work and process around companies.

6.3 Implications

Even though there are positive effects of ethical funds on the companies, such as customer feedback and increased goodwill, there is a lack of dialogue between KPA Pension and its investment objects, according to the companies themselves. This is a dialogue that most companies that have had contact with KPA Pension find valuable and fruitful. Therefore, in order to maintain this collaboration and to gain as much as possible from it, there should be two sides in this dialogue: KPA Pension should, if possible, engage in dialogue with all companies in their investment holding, while the invested companies themselves should, also if possible, initiate contacts with KPA Pension themselves. After all, there is money to be made with good conscience.

6.4 Future research

The findings of this study warrant further research, particularly comparative study whether there are differences between large and very large and medium and small companies regarding how ethical funds influence their environmental and CSR performance. A study that continues on the trail of this thesis by analysing whether there are other actors or driving forces, certification for instance, that have succeeded better in influencing companies regarding environmental and ethical issues than ethical fund would also be interesting.

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<http://www.jantziresearch.com> Social investment analysis group

<http://www.konsumentverket.se> The Swedish Consumer Agency

<http://www.kpa.se> The Swedish fund company KPA Pension

<https://www.raymondjames.ca> North American full-service investment dealer

<http://www.robur.se> The Swedish fund company Swedbank Robur

<http://www.sciencedirect.com> An internet based database

<http://www.siricompany.com> Sustainable Investment Research Company

<http://www.socialinvest.org> Non-profit organization promoting SRI

<http://www.socialinvestment.ca> The Canadian Association for Socially Responsible Investment

Appendix

The questionnaire

Swedish introduction

Om studenten

Studerande skriver Magisteruppsats i Hållbart Företagande i samarbete med KPA Pension AB och läser vid Centrum för Tvärvetenskaplig Miljöforskning, en institution vid Stockholms Universitet.

Studiens syfte

KPA önskar få en utvidgad bild av hur deras investeringsobjekt (företagen anknutna till fonderna) förändrats över tid gällande, bland annat, miljöcertifiering. Magisteruppsatsens mål i sig är att belysa de drivkrafter som påverkar och formar ett företag ur miljö- och CSR (Corporate Social Responsibility)- synpunkt. Målet är även att undersöka hur kriterier uppsatta av KPA tolkas och implementeras i ett företags verksamhet.

Effekten på företagets miljö- och CSR- arbete som dessa tolkningar ger upphov till kopplas sedan till den tidliga aspekten. Hela studien genomsyras av ett hållbart företagande perspektiv, med vilket menas att ett företag studeras från ett för dagen gällande syn på etik och miljö. Företagen i studien ses således som enheter som påverkar sin omgivning i och med de handlingar de utför.

Om enkäten

Svaren som erhålls genom nedanstående frågor utgör grunden för analysen. Företagens svar analyseras kvalitativt i ljuset av tidigare forskning och kommer ej att användas utanför forskarsammanhang.

I analysen kommer företagen att vara *anonyma*, likaså i den färdiga studien. Endast författaren kommer att ha kännedom om vilka företag som deltagit i enkäten.

Företag som svarar på enkäten kommer att erhålla det slutliga resultatet av studien som tack för dess medverkan.

Enkätens uppbyggnad

Enkäten är uppbyggd enligt olika teman för att enklare skapa en överblick och för att likartade frågor skall komma i anslutning till varandra. *Sätt kryss vid JA/NEJ/DELVIS/VET EJ svar, i annat fall specificera. Vid annat svar ges instruktioner vid frågan. Vid eget svar (t ex "kanske", "nja") skriv detta vid sidan om ursprungligt svarsalternativ. Om mer plats behövs för svaret, v g använd baksida. Vid elektroniskt svar, skapa gärna nya rader direkt i enkäten vid brist på plats. Om något är oklart, tveka inte att ta kontakt med mig.*

English version with following questions

The questionnaire

The answers received through the questions below will be a base for the entire analysis. The companies' answers will be analyzed qualitatively and will not be used outside the study. All interviewees and companies will remain *anonymous* in the study and the final paper. Only the *student* will know which companies have participated in the questionnaire. KPA Pension has provided the list of companies but does not know which of the ones listed are participating in the study.

Companies will receive the final master paper as a gratitude for their help.

If there is any extra place needed for extended answers, please do not hesitate to make room in the questionnaire itself. If there is anything unclear, please contact me.

General information

The company

- Name of company
-

9. Do You consider environmental and CSR work compatible with economic profitability?
 YES___ Partially___ NO___ Unsure___
10. What or which environmental and CSR issues is the company prioritizing?

11. Why does Your company have an environmental and CSR work?
 (specify briefly)_____
12. How far (in future) is the planning of the environmental and CSR work set?

13. What internal/external environmental and CSR- programs or projects does the company work with or supports?
 Internal (which/with whom?)_____
- External (which/with whom?)_____
14. Do You communicate Your environmental and CSR work internally/externally?
 YES___(to whom?)_____ NO___ Unsure___
15. Has the company affected any other actors on the market?
 YES___ (who/how?)_____ NO___ Unsure___
16. What actor or driving force do You think has the greatest impact on the company's environmental and CSR work? (Specify)_____
17. Is Your company satisfied with its environmental and CSR work?
 YES___ Partially___ NO___
- KPA's ethical fund**
18. What year was the company brought into the ethical fund of KPA?___(year) Unsure___
19. Does Your company cooperate with other ethical fund providers (such as KPA)?
 YES___ NO___ Unsure___
20. Do You consider being part of an ethical fund has provided the company with market benefits?
 YES___ NO___ Unsure___
21. Do You consider the company's activity being more *profitable* by being a part of an ethical fund?
 YES___(for instance, in terms of goodwill, customers, financially)_____
- NO___
- a. Unchanged___
- b. Less profitable___(how?)_____
- c. What factor makes the company continue to be a part of the ethical fund? _____
22. What is the company's view on KPA as an ethical fund provider/company? (an investor, a partner, et cetera?)
 (Specify)_____
23. What kind of positive and negative feedback have You received when being a part of an ethical fund? (Specify)_____

Criteria, interpretation and implementation

24. Do You consider that Your company fulfills the criteria as set by KPA?
YES___ Partially___ NO___ Unsure___
25. Do You consider that there has been *time, financial resources ,competence, technical prerequisites* or *attitude* that makes the implementation/work with the criteria possible?
(specify shortly despite YES or NO)

26. Is the work with the criteria continuous or finished?
Continuous___ Finished___(year)_____
27. Have the demands of KPA's criteria posed any clash with the company's own environmental and CSR work?
YES___(specify)_____ NO___ Unsure___
28. Is there something that the company has specifically *learned* from the work with the criteria?
YES___(what?)_____ NO___ Unsure___
29. What has been most difficult regarding the criteria? (specify)_____ Unsure___
30. Do You consider KPA's criteria being:
Reasonable? YES___ NO___(why?)_____
Essential? YES___ NO___(why?)_____
Up to date? YES___ NO___(why?)_____
Applicable? YES___ NO___(why?)_____
31. Is there anything else You wish to mediate regarding Your environmental and CSR work?

32. From an organizational perspective with internationalization in mind, is it difficult to determine the margin of Your company?

Thank You for Your participation in this survey!

KPA's ethical criteria

Påverkande kriterier

Våra påverkande (positiva) kriterier handlar om mänskliga rättigheter, miljö och korruption. Vi vill att företagen vi investerar i ska ta ett större ansvar för dessa frågor. Vår ambition är att på olika sätt föra en konstruktiv dialog med företaget i fråga, för att därigenom påverka i en positiv riktning.

Miljö

Kriterium: KPA Pension investerar i företagsgrupper som aktivt arbetar med att reducera sin negativa påverkan på miljön.

Definition: Det innebär att företaget ska ha definierat sitt miljöarbets viktigaste mål, strategier, medel och organisation för att nå dessa mål. Företaget ska också ha en åtgärdslista för att kontinuerligt minska sin negativa miljöpåverkan.

Energisektorn är viktig när det gäller faktisk miljöpåverkan. Därför investerar KPA Pension bara i energibolag som har förnybar energiproduktion eller bedriver forskning och utveckling inom området. Företagen har handplockats från Dow Jones Sustainability Index World och valts av KPA Pension för att de arbetar för ett hållbart samhälle.

Korruption

Kriterium: KPA Pension ska genom sina placeringar aktivt påverka företag att systematiskt förebygga alla former av mutor och bestickning i sina affärsrelationer.

Definitioner:

"Att systematiskt förebygga" innebär att ha en strategi och en handlingsplan mot korruption. Ett sådant program kan utvecklas utifrån de näringslivsprinciper som Transparency International har tagit fram.

"Alla former av mutor och bestickning" avser både direkta och indirekta varianter.

Den som gör sig skyldig till mutbrott har tagit emot en otillbörlig belöning i sin tjänsteutövning, medan den som gör sig skyldig till bestickning har erbjudit en sådan muta.

"Affärsrelationer" avser dotterbolag, partners i joint ventures, leverantörer, agenter och andra affärspartners.

Korruption har blivit ett allt mer uppmärksammat problem i den globala ekonomin. Konkurrensen sätts ur spel, tillväxten hämmas och den sociala utvecklingen bromsas. Därför har flera internationella organ, bland annat FN, OECD och ICC (Internationella handelskammaren) tagit fram nya skrivelser och uppföranderegler vad gäller korruption.

KPA Pension är sedan 2006 anslutet till [Global Compact](#) som startades år 2000 på initiativ av FN. KPA Pension är sedan 2003 ansluten till det svenska regeringsinitiativet [Globalt Ansvar](#), vilket är en motsvarighet till FN:s Global Compact.

Global Compact har utarbetat ett antal principer som anslutna företag accepterat att följa. Utöver dessa har nu ytterligare ett tillkommit nämligen att motverka korruption. De tidigare principerna rör mänskliga rättigheter, arbetsrätt och miljö. Dessa principer tillämpar KPA Pension sedan tidigare genom sina nuvarande placeringskriterier.

KPA Pension är sedan juni 2006 också corporate members i [Transparency International](#) Sverige för att på så sätt också stödja verksamheten och utvecklingen av principer mot korruption.

Mänskliga rättigheter

KPA Pensions kriterium för mänskliga rättigheter fokuserar främst på hur det ser ut innanför företagens portar, det vill säga vilka arbetsförhållanden som råder. Vi utgår från [ILOs](#) (International Labour Organization), [FNs allmänna deklaration om de mänskliga rättigheterna](#), [FNs barnkonvention](#) samt [OECDs](#) (Organisation for Economic Co-operation and Development) etiska riktlinjer för multinationella företag. ILOs åtta grundläggande kärnkonventioner utgör den mest allmänt accepterade kodifieringen av människorättsnormer inom internationell rätt. Varje försök av en företagsledning att skapa ett normsystem måste utgå från dessa. Frågorna rör bland annat hälsa, säkerhet, jämställdhet, barnarbete och kollektiv förhandlingsrätt.

Kriterium: KPA Pension ska genom sina placeringar aktivt påverka företag i relevanta branscher och regioner

att systematiskt arbeta med grundläggande arbetsrättsliga frågor för de anställda (positivt).

Definition: Detta innebär att vi avser att påverka företagen att till exempel upprätta en policy, uppförandekod eller motsvarande som omfattar de grundläggande mänskliga rättigheter som beskrivs i ILOs konventioner. Det kan också handla om att företagen ska utveckla rutiner för uppföljning av policyn och de åtgärder som beslutats om. Med motsvarande menas exempelvis kollektivavtal, kvalitetsgranskning av leverantörer och lagstiftning. Med relevanta branscher och regioner avses verksamheter där det föreligger särskilt hög risk för att oegentligheter förekommer. Exempel är arbetskraftsintensiva branscher och verksamheter med lågt förädlingsvärde som opererar i låglöneländer. Med anställda avses alla som bidrar med sitt arbete till företaget, dvs. även leverantörer och underleverantörer.

I ett första steg är dock fokus ställt på egen personal samt de leverantörer som står för tillverkningen av slutprodukter eller viktiga komponenter i dessa.

Innehåll Mänskliga Rättigheter

Arbetstagar rättighet	Motsvarande ILO-konventioner
Hälsa och Säkerhet	ILO Convention 155; Occupational Safety and Health Convention
Ej diskriminering	ILO Convention 100; Equal Remuneration Convention ILO Convention 111; Discrimination (Employment and Occupation) Convention
Associationsfrihet	ILO Convention 87; Freedom of Association and Protection of the Right to Organise Convention
Rätt till kollektiva förhandlingar	ILO Convention 98; Right to Organise and Collective Bargaining Convention
Ej barnarbete	ILO Convention 138; Minimum Age Convention ILO Convention 182; Worst Forms of Child Labour Convention
Ej tvångsarbete	ILO Convention 29; Forced Labour Convention ILO Convention 105; Abolition of Forced Labour Convention
Lönesättning	ILO Convention 131; Minimum Wage Fixing Convention
Arbetstidsreglering	ILO Convention 1; Hours of Work (Industry) ILO Convention 14; Weekly Rest (Industry) ILO Convention 106; Weekly Rest (Commerce and Offices) Convention

http://www.kpa.se/mallar/Sida_697.aspx 2006-11-05

Uteslutande kriterier

Vissa verksamheter vill vi inte investera i, oavsett hur bra deras arbetsmiljö eller miljöpåverkan är. Därför har vi uteslutande (negativa) kriterier.

Alkohol

Kriterium: KPA Pension investerar inte i företagsgrupper där någon andel av omsättningen* härrör från produktion av alkoholhaltiga drycker.

Definition: Med alkoholhaltiga drycker menar vi drycker som har en högre alkoholhalt än 2,25 volymprocent.

Med produktion av alkoholhaltiga drycker avser vi bryggandet av öl, destillation av sprit, produktion av cider och vin, och att blanda och tappa alkoholhaltiga drycker.

Tobak

Kriterium: KPA Pension investerar inte i företagsgrupper där någon andel av omsättningen* härrör från produktion av tobak eller tobaksprodukter.

Definition: Med produktion av tobak eller tobaksprodukter avser vi ägande av tobaksplantager samt produktion av cigaretter, cigarrer, piptobak, snus, tuggtobak och andra tobaksprodukter.

Spel

Kriterium: KPA Pension investerar inte i företag där någon andel av omsättningen* härrör från kommersiell spelverksamhet.

Definition: Med kommersiell spelverksamhet avser vi kasinon och spelklubbar. Vi inräknar passagerarfartyg, hotell och restauranger samt tillverkning och återförsäljning av automater med spel eller underhållning med vinstmöjligheter.

* Med någon andel av omsättningen avser vi mer än 10 miljon kronor eller 1 procent av rapporterad årsomsättning. Med rapporterad årlig omsättning avser vi årsomsättning rapporterad i senaste årsredovisningen utgiven av moderföretaget.

Kommentar till Alkohol-, Tobak- och Spelkriterierna

Vi har valt att inrikta oss på tre områden som påverkar människors hälsa och välmående. Alkohol, tobak och spel. Vi vill betona att våra kriterier berör missbruk av dessa, och inte "normalt" eller måttligt bruk/användning.

Vi anser också att det är skillnad på att välja att konsumera en vara och hur man väljer att placera sitt sparkapital. När det gäller spelkriteriet, anser vi att det är skillnad på börsnoterade bolag med vinstintressen och ideella organisationer som väljer lotter etc. för att finansiera ungdomsidrott.

Vapen

Kriterium: KPA Pension investerar inte i företagsgrupper som producerar vapen.

Definition: Med vapen avser vi produkter med ändamålet att döda, stympa eller ödelägga som säljs till militära användare. I begreppet inräknas till exempel krigsfartyg, tanks, väpnade fordon, stridsflygplan, handeldvapen, granater och granatkastare, torpeder, bomber, minor, ammunition, pansarvärnsvapen, haubitsar, kanoner, luftvärnsrobotar, krut och sprängämnen.

Här ingår också produkter som används som plattform för vapen och militära strategiska produkter.

Exempel på plattform för vapen är: skepp, flygplan eller andra fordon från vilka vapen kan användas där huvudsyftet med fordonet är att fungera som ett stridsvapen. Detta inräknar fraktfartyg som bär missiler och kanoner ombord för militära ändamål såväl som landstigningsfarkoster eller småbåtar som är vapenbestyckade.

Med strategiska produkter avser vi elektronik för ammunition och minor, eldledningssystem och sikten som är centrala för att vapensystemet ska fungera.

http://www.kpa.se/mallar/Sida_698.aspx 2006-11-05

Krav på investeringsobjekt

KPA Pension är sedan 1998 miljöcertifierad enligt ISO 14001 vilket innebär att vi aktivt arbetar med att reducera vår påverkan på miljön. Vi inberäknar då i vår verksamhet såväl våra leverantörer som våra investeringar. Dessa påverkar vi att se på miljöfrågorna på samma sätt som vi.

När vi miljöbedömer våra investeringsobjekt tar vi hänsyn till bland annat följande faktorer:

- Finns det något etablerat miljöledningssystem?
- Finns en skriven och antagen miljöpolicy?
- Finns formulerade miljömål?
- Finns det någon miljöansvarig?
- Är personalen utbildad i miljöfrågor?
- Bedöms underleverantörer ur miljösynpunkt?
- Hur sker dokumentation av miljöarbetet?
- Finns det någon form av årlig miljöredovisning?

http://www.kpa.se/mallar/Sida_692.aspx