

**STOCKHOLM SCHOOL OF ECONOMICS**  
**Bachelor Thesis in Business and Economics**

# **IN ABSENCE OF REGULATION, WHAT DRIVES MOTIVATION?**

A qualitative study of pro-sustainable  
behavior in Swedish private equity

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## **Abstract**

Through a qualitative study, this thesis aims to describe what motivates individuals who work in private equity firms to engage in pro-sustainable behavior, which refers to performing job-related activities that reduce the negative impact on, for example, the environment or that address other global challenges. The thesis is based on a sample of 15 individuals, out of which nine are part of the top management team or are officially responsible over the corporate sustainability agenda in their firms. The Self-Determination Theory is used to understand and analyze the individuals' perceptions of challenges and opportunities with sustainable practices within their work. The findings from the cross-sectional study demonstrate several factors that motivate individuals who work in private equity to engage in pro-sustainable behaviors: Having sustainability as a firm goal or official strategy, having leaders and culture that encourage sustainable practices, designing sustainability-related work tasks in an autonomous way and making sustainability personally engaging for individuals. This thesis helps to inform private equity professionals about the motivators and demotivators of sustainability-related work and aims to increase the understanding of which organizational initiatives and what support could be necessary to encourage and sustain effective pro-sustainable behaviors among individuals working in the private equity industry.

**Keywords:** Private equity, motivation, Self-Determination Theory, sustainability, change management

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Magnus and Malin

# Definitions

Table I. Definitions

Concept	Definition
Directive on Alternative Investment Fund Managers	Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 is an EU legislation that concerns the financial regulation of hedge funds, private equity, real estate funds and other alternative investment funds.
Dry powder	Capital ready to be invested in for instance companies, real estate, infrastructure, and natural resources (Espinoza, Platt 2019).
Due diligence	A careful investigation of the state of a business by a person or organization that is thinking of buying it or investing in it (Oxford Dictionary 2020).
Exit	The realization of an investment (DeMarzo, Berk 2017).
General partner	Investor who is personally responsible for the debt of the company invested in (DeMarzo, Berk 2017).
Greenwashing	Concept originating from activist Jay Westerveld in 1986, referring to activities by organizations intended to make people think that they are concerned about the environment, even if their businesses harm the environment (Oxford Dictionary 2020).
Institutional investor	Managers of large quantities of capital and typically consist of pension funds, insurance companies, endowments and foundations (DeMarzo, Berk 2017).
Leveraged buyout	Occurs when a private investor purchases all the equity of a public corporation and finances the acquisition primarily with debt (DeMarzo, Berk 2017).
Limited partner	Owner whose responsibility is limited to their investment and whose property cannot be seized to pay outstanding debt (DeMarzo, Berk 2017).
Limited partnership	Partnership of two kinds of owners, general partners and limited partners (DeMarzo, Berk 2017).
Private equity	Medium or long-term equity investment which is not publicly traded on a stock exchange (Cendrowski, Martin et al. 2012).
Private equity firm	An organization who invests in privately held firms or publicly traded firms with the intention to take them private (DeMarzo, Berk 2017).
Pro-environmental behavior	The carrying out of work-related activities that reduce the negative impact on the environment (Pelletier, Aitken 2014).
Socially responsible investing	The integration of environmental, social and governance concerns in conventional investing practices (Crifo, Forget, 2013).
Sustainable development	Sustainable development is “ <i>development that meets the needs of the present without compromising the ability of future generations to meet their own needs</i> ” (Our Common future, 1987). This is further developed in section 2.2.
Sustainable Development Goals	17 development goals addressing global challenges, developed to reach Agenda 2030, and adopted by United Nations Member States in 2015 (United Nations 2020).
Principles for Responsible Investment	Six principles that provide a global standard of responsible investment decision-making and active ownership developed by United Nations (Principles for Responsible Investment 2020).
Venture capital firm	A limited partnership that specializes in raising money to invest in equity of young companies (DeMarzo, Berk 2017).

# Abbreviations

*Table II. Abbreviations*

Abbreviation	Definition
AIFMD	Directive on Alternative Investment Fund Managers
ESG	Environmental, Social and Governance
KPI	Key Performance Indicator
PE	Private Equity
SDG	Sustainable Development Goal
SDT	Self-Determination Theory
SRI	Socially Responsible Investing
UNPRI	United Nations Principles for Responsible Investing

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# 1. Introduction

## 1.1 Background

Sustainable development, such as environmental, social and governance (ESG) initiatives are high on the agenda for policymakers and investors around the world. This is reflected both in regulations and the normative pressure among various stakeholders in society, with current examples including the United Nations 17 Sustainable Development Goals (SDG) and the development of the EU Taxonomy, which is a regulatory tool to help investors and companies navigate the transition to a low-carbon, resilient and resource-efficient economy (EU Technical Expert Group on Sustainable Finance 2020, United Nations 2020). In December 2019, the EU Commission agreed on a law making the taxonomy mandatory from December 2021, which means financial operators must report their impact accordingly (Council of the European Union 2019). The taxonomy regulation is intended to include Alternative Investment Funds, such as private equity, which constitute a central industry and source of capital in society (EU Technical Expert Group on Sustainable Finance 2020, European Parliament and the Council of the European Union 2011). Although the development of regulations, such as the EU Taxonomy, will likely have a significant impact on the nature of investment activities in the future, the current regulatory environment, to the authors knowledge, does not require private equity firms to invest or engage in sustainability.<sup>1</sup> At the same time, the number of private equity investors committing to integrate ESG considerations into their analysis and decision-making and to engage with companies on these issues are increasing, which can be seen by the growing number of signatories to the non-binding investment framework United Nations Principles for Responsible Investment (Principles for Responsible Investment 2020a).<sup>2</sup> This suggests that the drivers for the private equity firms on choosing to incorporate sustainability as part of their strategy come from other sources than public policy-making. This thesis, that is based on qualitative empirical data from ten private equity firms, aims to examine these driving forces further and why private equity managers willingly incorporate sustainability into their strategy even though no regulation forces them to.

## 1.2 Prior research and research gap

While studies on socially responsible investing (SRI) mainly focus on public markets, the asset class of private equity and its non-financial practices and policies has received less attention (Crifo, Forget et al. 2015, Crifo, Forget 2013, Cumming, Johan 2007, Scholtens 2006).<sup>3</sup> In general, private equity

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<sup>1</sup> See for instance the European legislation Directive 2011/61/EU of Alternative Investment Fund Managers, targeting private equity operations, which does not impose sustainability requirements, for example, sustainability reporting or similar measures.

<sup>2</sup> Definition of Principles for Responsible Investment, Table I.

<sup>3</sup> Socially responsible investing is further developed in section 2.3.



research has been interested in studying the relationship between private equity firms and their investments, more specifically, the performance of financial, operational and governance engineering (Bernstein, Lerner et al. 2016, Harris, Jenkinson et al. 2014, Axelson, Jenkinson et al. 2013, Ughetto 2012). While there is a great deal of research, with various content and results, examining the effects and relationships of sustainable initiatives at the firm level in relation to external stakeholders, there is, to the authors knowledge, less research on the internal implications of sustainable policies and practices on the private equity firm itself (see e.g. Gompers, Kaplan et al. 2016). Just as the efficiency of external initiatives between private equity firms and engagement targets can be measured qualitatively and quantitatively, the internal efficiency of adopting sustainable initiatives can be investigated by studying, for example, impact on employee engagement and employee motivation (Hayes 2014, Harter, Schmidt et al. 2002). The fact that this perspective has received little attention is interesting, considering that the execution of initiatives requires the engagement of private equity professionals and that insufficient attention to employee motivation and commitment is pointed out as one of the most common explanations to why the development and implementation of new strategies fail (Hayes 2014). Therefore, it is of interest to investigate whether internal motivation as a variable has any impact on the outcome of sustainable practices.

### **1.3 Purpose and research question**

The idea of strategic integration of sustainable practices refers to the reconciliation between sustainability and the interests of the private equity industry. The description in the previous section reflects the existing research gap in the underlying reasons for individuals in private equity firms to engage in sustainable practices, but also whether the current ways of working are effective from a pro-sustainable behavioral perspective. Hence, understanding why and how private equity firms adopt sustainable practices are critically important questions to explain which initiatives could be necessary to encourage effective pro-sustainable behavior among individuals. Using the Self-Determination Theory (SDT) as framework, this thesis seeks to increase the understanding of engagement in sustainable initiatives within private equity firms and to explain the components facilitating pro-sustainable behavior. The research question of this thesis is therefore:

*What motivates professionals in private equity firms to engage in pro-sustainable behaviors?*

## **1.4 Primary focus and delimitation**

The study will focus on the motivation of private equity professionals in Swedish offices of Nordic private equity firms (legally incorporated in Sweden, Norway, Finland or Denmark). This target group is interesting, since investors in the Nordic countries from a global perspective have been reported to have the highest ESG ratings to make stakeholder demands on ESG performance high on the agenda (Semenova, Hassel 2019, Liang, Renneboog 2017). For instance, the Stockholm-based and award-winning private equity firm Summa Equity has been recognized internationally for their progressive sustainable investment strategies (Indahl, Jacobsen 2019, United Nations Development Programme 2019, The Private Equity Awards 2019). Private equity is classified in this paper as buyout or growth equity investments and will not include venture capital, as venture capital firms can be distinguished from conventional private equity in terms of investment strategies (Gompers, Kaplan et al. 2016, Sahlman 1990).<sup>4</sup>

## **1.5 Disposition**

The thesis is divided into six parts, as follows: The first part presents a literature review of private equity, sustainability and socially responsible investing. The second part presents the chosen theory, the Self-Determination Theory. The third part of the thesis concerns the design and execution of the study. Section four presents the empirical data from the 15 individuals who participated in this study, which is followed by an analysis based on the chosen theory. The study is then concluded with a discussion and the answer to the research question.

# **2. Literature review**

## **2.1 Introduction to private equity**

Although many definitions of private equity exist, private equity at its' most simple level can be described as a medium or long-term equity investment which is not publicly traded on a stock exchange (Cendrowski, Martin et al. 2012). On an inter-organizational level, private equity operations are typically organized as a limited partnership, where investors (Limited Partners) provide capital to a fund and private equity firms (General Partners) make investments in various assets by using capital from the fund (Strömberg, Axelson et al. 2009).<sup>5</sup> The return from these investments is partly distributed

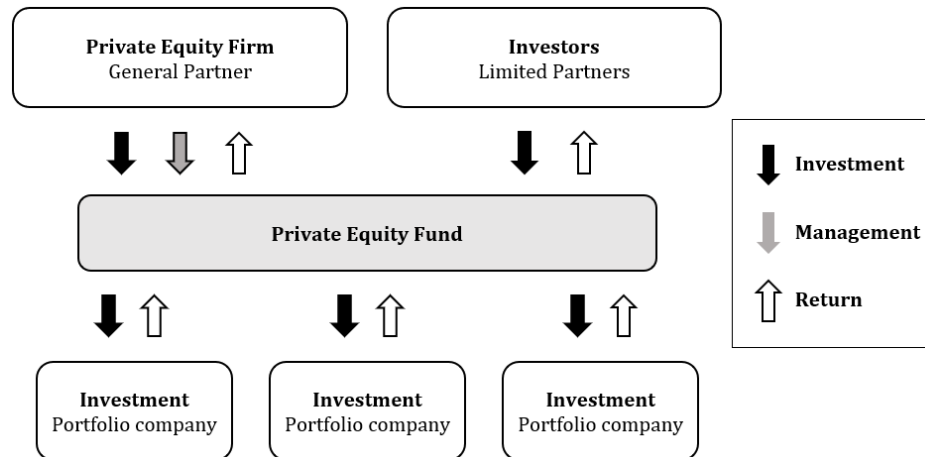
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<sup>4</sup> Definition of Leveraged buyout and Venture capital in Table I.

<sup>5</sup> Definition of General Partner and Limited Partner in Table I.

to the the Limited Partners, which typically include institutional investors and wealthy individuals, and partly distributed to the private equity firms which receive fees and compensation for the arrangement (Strömberg, Axelson et al. 2009, Strömberg, Kaplan 2009).<sup>6</sup> A simplification of this structure is illustrated in Figure 2.1.

*Figure 2.1. Example of a private equity fund structure (Swedish Private Equity & Venture Capital Association 2020), edited by von Perner and Westén, 2020*



The private equity firms are active investors and use their ownership positions, usually significant or major stakes, to influence company policy and practice. This governance engineering aspect of private equity investors, in contrast to public investors, is considered a key strength (Strömberg, Kaplan 2009, United Nations 2020). Over the course of a fund's life, the private equity investors increase the value of their investments by engaging in financial, operational and governmental engineering, which typically include bringing in operational expertise, incentivising the corporate managers, leveraging debt and the implementation of governance structures and comprehensive assessment procedures (Gompers, Kaplan et al. 2016). Typical activities over the investment process, with emphasis on ESG, are illustrated in Figure 2.2.

*Figure 2.2. Responsible investment activities across the investment process (Principles for Responsible Investment 2020b), edited by von Perner and Westén, 2020*

Investment process			
Sourcing	Acquisition stage	Holding period	Exit
Identification of material ESG issues during screening of prospective investments and due diligence	The investment decision can include material issues in the investment memorandum and the negotiation of investment agreements	Management of ESG issues during onboarding, the engagement and monitoring of portfolio companies during holding period	To add value at the exit, which means selling the investment, which typically occurs 4-7 years after the acquisition

<sup>6</sup> Definition of Institutional investor in Table I.

In Sweden, approximately 170 000 people are employed in more than 1100 private equity-owned companies and the industry's contribution to the Swedish gross domestic product (GDP) in 2019 amounted to 6.8% (Swedish Private Equity & Venture Capital Association 2020). From a global perspective, the private equity industry in 2019 was estimated to have 2.5 trillion dollars in dry powder (Espinoza, Platt 2019).<sup>7</sup> To put this figure in perspective, the Swedish GDP amounted to approximately 510 billion dollars in 2019, which is equivalent to approximately 21% of the estimated dry powder (Statistiska Centralbyrån 2020).

## 2.2 Sustainability

The concept of sustainable development was introduced in 1981 by the American environmental scientist and author Lester Brown and spread internationally in 1987, when it was launched by the World Commission for Environment and Development (also called the Brundtland Commission) in its report "*Our common future*" (United Nations Association of Sweden 2012). According to the original definition, sustainable development constitutes "*Development that meets the needs of the present without compromising the ability of future generations to meet their own needs*" (World Commission on Environment and Development 1987). Over the past decades, a flora of literature has evolved around sustainable development, corporate social responsibility (CSR), ESG, the SDG's and the creation of shared values, to name a few concepts concerning corporations and their role in society (Porter, Kramer 2011).<sup>8</sup> The application of these concepts vary between organizations, industries and geographies, but are mainly interested in the impact of social performance on economic performance or vice versa (Galant, Cadez 2017, Humphrey, Lee et al. 2012, Orlitzky, Schmidt et al. 2003). Because individuals perceive things differently, the authors have chosen to include CSR, ESG, shared values and adjacent concepts into the initial definition of sustainable development, with the primary purpose to not restrict or limit the scope and application of sustainable practices by private equity professionals, whose unique perception and attitude towards sustainability is a central component for answering the research question.

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<sup>7</sup> Definition of Dry powder in Table I.

<sup>8</sup> SDG refers to Sustainable Development Goals, Table I.

## **2.3 Social Responsible Investing**

### **2.3.1 Conceptualization of Social Responsible Investing**

Simultaneously with the development and increased prominence of sustainability in the business sector, the question of beyond-profit investing and ESG adoption has drawn academic attention. One such development is Socially Responsible Investing (SRI), which is an investment process that integrates social, ethical and environmental considerations into the decision-making processes of investments (Renneboog, Horst et al. 2008). SRI involves the application of selected parameters to select or exclude investments based on non-financial criteria, in addition to financial criteria, and can also involve shareholder activism to monitor corporate practices and policies in the portfolio companies (Sjöström 2008, Crifo, Forget 2013). Investors nowadays face a tool-box of different strategies of active ownership and a wide range of contexts and circumstances in which it can be used. The effectiveness of investors' monitoring activities and their ability to directly influence corporate policy is however a widely disputed topic (Sjöström 2020). For instance, Kaplan and colleagues (2014) argue that the private equity performance is uncertain, due to the uneven disclosure of information about funds and their assets and the quality of the data. This could serve as an explanation to the gap in research concerning private equity and sustainability, as previously mentioned in the introduction (section 1.2).

### **2.3.2 Studies on active ownership and sustainable initiatives**

Although the majority of research concern public markets, studies on active ownership can provide some insights on how sustainable initiatives can be pursued by investors and private equity firms. Therefore, an overview of strategies will be presented in brief, which can create an understanding of contextual factors and strategies, that could shape individual motivation.

On the active ownership side, studies regarding environmental and social issues have examined the efficiency of engagement strategies such as corporate dialogue, stakeholder salience, importance of target firm characteristics, filing of shareholder resolutions and divestment of assets (Sjöström 2020). Shareholder salience describes what influences managers to prioritize between competing stakeholder claims in their decision-making processes and has found legitimacy to be the most crucial attribute for successful engagement (Gifford 2010, Mitchell, Agle et al. 1997). Also, studies have found that the size of the shareholding does not

seem to be crucial to succeed with corporate engagement, indicating that engagement can be achieved without being the majority owner (Sjöström 2020, Dimson 2015, Gifford 2010).

A French study on private equity firms has examined potential strategic drivers for ESG initiatives and socially responsible investing (SRI) (Crifo, Forget 2013). Crifo and Forget (2013) found that private equity firms tend to address governance aspects within ESG, that ESG practices are used as a differentiation tool to attract investors and that SRI is motivated by risk-management and by creating value in the portfolio companies. However, a minority of the observed firms measure ESG impact on portfolio performance, which Crifo and Forget (2013) consider to be an indication that the majority of investors believing ESG aspects create value do so on qualitative grounds.

### **3. Theoretical framework**

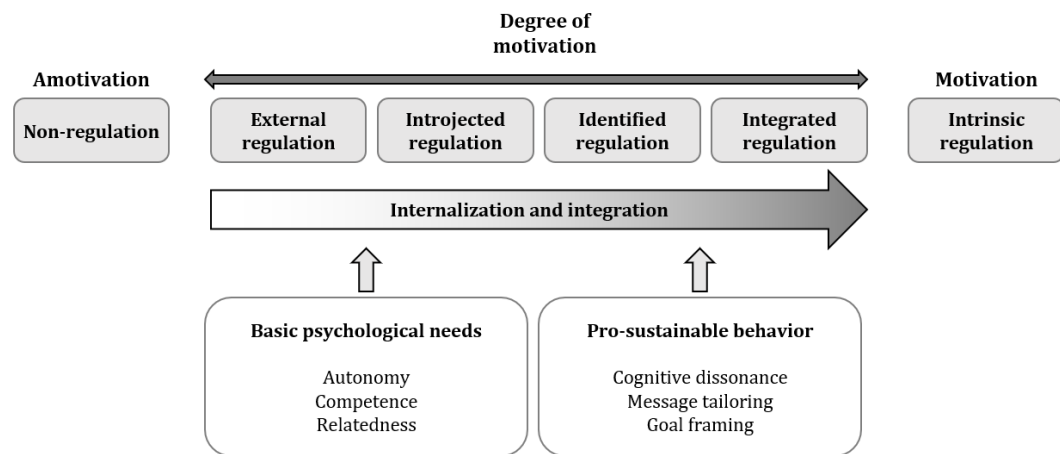
#### **3.1 Theory usage**

A common challenge for leaders and managers is to motivate others in their organizations to support change and many times efforts fail because there is insufficient support and motivation among people who can influence the outcome of the change (Hayes 2014). Motivation is recognized as being closely linked to commitment, creativity, productivity and effective employees, which are all central performance indicators for long-term organizational health (Deci, Ryan 2014). As a consequence, motivation has been thoroughly studied through various lenses in management research, to which the Self-Determination Theory (SDT) of human motivation belongs to some of the most researched (Deci, Ryan 2014). SDT is a macro-theory of personal development and well-being in social contexts, initially developed by Edward L. Deci and Richard M. Ryan out of their interest for things being done for their own sake (Gagné, Deci 2014, Deci, Ryan 2014). The SDT framework originates from the individual psychology field and is based on a developmental psychological view on the individual (Blomberg 2017). In this theory, humans are perceived as being born with basic needs of being active, curious, playful and independent of external rewards, which makes it the most fundamental form of motivation (Deci, Ryan 2000b). SDT holds that a requirement for individual thriving and well-being is that individuals are able to satisfy their basic psychological needs and that such satisfaction is more likely to occur if the environment in which the individuals reside offers appropriate opportunities to do so (Deci, Ryan 2000a). As such, the SDT theory is dialectical, meaning that motivation and psychological needs can be influenced and constructed by the members of a social context or system, for instance, by the will of the individuals themselves (Deci, Ryan 2014, Hayes 2014).

## 3.2 Self-Determination Theory

SDT distinguishes between *amotivation* and *motivation* and holds that motivation is dependent on the extent to which individuals experience *autonomy*, *competence* and *relatedness* (Deci, Ryan 2000a). The process of becoming motivated is called *internalization* and *integration* and consists of *four phases* (Greguras, Diefendorff et al. 2014). Furthermore, SDT has been interested in individual motivation to *pro-environmental behavior* in the working environment, which is enhanced by the reduction of *cognitive dissonance* by the use of *strategic message tailoring* and *goal framing* (Pelletier, Aitken 2014). These concepts are summarized in Figure 3.1 and will be explained throughout the following section.

Figure 3.1. Self-Determination Theory and its continuum (Deci, Ryan 2000b, Mayer 2014), edited by von Perner and Westén, 2020



### 3.2.1 Forms of motivated action: Intrinsic and extrinsic motivation

Deci and Ryan (Deci, Ryan 2000a) argue that actions can be categorized as either motivated or amotivated. Individuals in amotivational states may lack intention, feel unsure why they perform tasks or may not engage in them at all (Gagne, Deci 2005). On the contrary, motivated people perceive their behaviors as deliberately and purposefully performed (Greguras, Diefendorff et al. 2014). Consequently, amotivational behaviors are typically non-regulated, whereas motivated behaviors are intrinsically regulated.

Individual motivation can also be categorized as either intrinsic or extrinsic, where intrinsic motivation refers to tasks that are perceived as inherently interesting or enjoyable for the individual, whereas extrinsic motivation results from the influence of external forces (Greguras, Diefendorff et al. 2014). As a result, intrinsic motivation creates a sense of autonomy, whereas behavior that originates from extrinsic motivation can be experienced as either autonomous or controlled (Greguras, Diefendorff et al. 2014). Consequently, internal and external motivations are not mutually exclusive and can be perceived as constantly present dimensions

of individual's driving forces (Blomberg 2017). As such, behaviors can therefore contain elements of both. Pure intrinsic regulation is perceived as unusual and extreme (Blomberg 2017).

### **3.2.2 Internalization and integration**

Many activities that individuals exercise on a daily basis are typically not inherently intriguing. In fact, most people engage in activities by the force and control of external factors, which means they are extrinsically motivated (Gagne, Deci 2005). If behaviors and activities are to be performed successfully and maintained over time, the SDT holds that individuals must value their behaviors and personally endorse their importance (Pelletier, Aitken 2014). Consequently, the behaviors must be intrinsically regulated.

Whether individuals experience extrinsically motivating tasks as autonomous or controlling depends on the extent to which the motives for performing the tasks have been internalized or integrated by the individuals (Gagné, Deci 2005). In the internalization process, individuals embrace and identify with some aspect of the activity, such as the underlying regulatory structures or values, which ultimately eliminate the need for solemnly external forces. As a result, individuals can experience reasonably autonomous forms of extrinsic motivation, which is associated with higher psychological well-being and therefore motivation.

The internalization process can be divided into four stages: (1) *External*, (2) *introjected*, (3) *identified* and (4) *integrated* regulation:

#### **(1) External regulation**

External regulation is the least internalized form of extrinsic motivation and refers to when individuals perform activities only because of the threat of punishment or because of the promise of compensation, such as pay performance.

#### **(2) Introjected regulation**

Introjected regulation represents a more internalized type of extrinsic motivation, occurring when individuals self-administer the punishments or the rewards associated with the activity. Hence, they have not internalized the underlying motives behind the activity and do not consider it either valuable or important, but choose to engage to avoid feelings of guilt or shame occurring if the task is not carried out (Deci, Ryan 2000a). External and introjected regulation are perceived as controlled motivation and lead to less interest for a behavior, a lower degree of well-being and are usually not maintained in the long-term (Deci, Ryan 2000a).

#### **(3) Identified regulation**

Identified regulation is a more internalized form of extrinsic motivation, in which individuals understand and identify with the



underlying behavior and experience the activity as fairly valuable (Deci, Ryan 1985).

#### ***(4) Integrated regulation***

In the most internalized form of extrinsic motivation, integrated regulation, individuals consider the activity to be aligned with an important aspect of themselves (Deci, Ryan 2000a). In this phase, they value the activity itself and perform it independently, even though it is still not inherently appealing and has not become entirely intrinsically motivating.

### **3.2.3 Autonomy, competence and relatedness**

Internalization is promoted by the occurrence of three psychological needs: (1) Autonomy, (2) Competence and (3) Relatedness, which SDT holds as essential for psychological growth and well-being (González, Niemec et al. 2014).

#### ***(1) Autonomy***

According to Deci and Ryan (2002), the need for autonomy is associated with behaviors initiated out of personal interest, being expressions of the self and compatible with the individual's values. The opposite of autonomy is heteronomy, which refers to regulation occurring without self-indorsement and when individuals experience a pressure to think, act and behave in a special way (Ryan, Deci 2006).

#### ***(2) Competence***

The need for competence is fulfilled when individuals experience themselves as proficient and effective in their work (Ryan, Deci 2002). According to Deci and Ryan (2002), employees are more likely to experience themselves as competent if they can engage in challenging tasks allowing them to exercise existing skills and to develop new skills and abilities. Leaders who attempt to satisfy the need for competence may promote well-being among their employees by offering training and support, by delegating interesting tasks or more generally, by removing barriers of efficient performance (Baard 2002).

#### ***(3) Relatedness***

Deci and Ryan (2002) define relatedness as the feeling of being connected and interdependent with others, as well as the feeling of belonging to a group. This is important because individuals are more likely to adopt behaviors and values promoted by whom they trust (Pelletier, Aitken 2014). Baard (2002) suggests that leaders can support relatedness among employees by fostering teamwork, mutual respect and shared group goals.

### 3.3 SDT and pro-environmental behavior

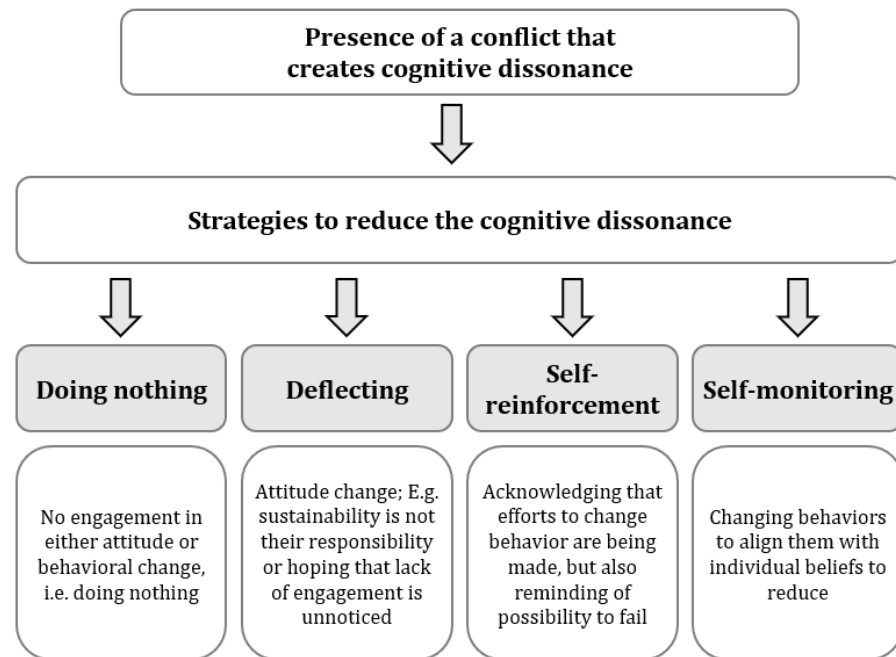
In addition to explaining different types of motivation and the process of internalization, research of the SDT has also examined individual change towards *pro-environmental behavior*, referring to work-related tasks that reduce negative impact on the environment (Pelletier, Aitken 2014). Pelletier and Aitken (2014) propose that the occurrence of sustainable actions in the work context is dependent on the nature of sustainability-related information and how it is communicated, which underlines the importance of company leadership having a clear strategy for sustainability communication within the company. This will be developed further through *cognitive dissonance*, *message tailoring* and *goal framing*.

#### 3.3.1 Cognitive dissonance

Pelletier and Aitken (2014) suggest that the aversiveness to engage in pro-sustainable behaviors can be explained by the degree of cognitive dissonance individuals experience. Cognitive dissonance is a psychological state that typically occurs when individuals realize that human or corporate activities cause environmental problems and that the solutions to the problems include trade-offs between environmental, social and economic well-being (Pelletier, Aitken 2014). Sometimes, these trade-offs can be directly linked to the personal interests of the individuals themselves. Pelletier and Aitken (2014) argue that these trade-offs create psychological discomfort, stimulated by the presence of a conflict between the person's cognition and their behavior. This conflict has been demonstrated to encourage people to find strategies to reduce the conflicting messages, in other words, to reduce the dissonance. Moreover, the alleviation of the discomfort is the underlying motivation for a dissonance-stimulated attitude change (Losch, Cacioppo 1990, Zanna, Higgins, Rhodewalt et al. 1979, Higgins et al. 1976).

The level of self-determined motivation influences the way individuals experience dissonance and in how they decide to reduce, or not reduce, it (Pelletier, Lavergne et al. 2010). Pelletier and colleagues (2010) have identified four different strategies that individuals use to reduce dissonance: *Inaction*, *deflection*, *self-reinforcement* and *self-monitoring*. Individuals with a higher degree of autonomous motivation predict a tendency to use self-bolstering and self-monitoring to change their behavior, whereas individuals with controlled motivation tend to do nothing or deflect the issues with sustainability (Pelletier, Lavergne et al. 2010). The four strategies are summarized in Figure 3.2.

Figure 3.2. Pelletier and colleagues (2010) strategies to reduce cognitive dissonance, edited by von Perner and Westén, 2020



Consequently, cognitive dissonance can provide explanations to aversive and amotivated behavior versus passionate and motivated behavior. The cognitive dissonance is a result on the nature of the information being communicated, but how it is communicated also has a role, which is further explained in the next section.

### 3.3.2 Strategic tailoring and framing of messages

Due to the effects of cognitive dissonance in terms of the establishment of aversiveness to act, the question arises as to how information could be offered to motivate individuals to act and to integrate pro-sustainable behaviors instead of doing nothing or deflecting sustainability-related problems. Pelletier and Sharp (2008) have suggested a combination of two approaches, based on the SDT framework, as regards how to effectively promote pro-sustainable behaviors: (1) *Message tailoring and framing* and (2) *Goal framing*.

#### (1) *Message tailoring and framing*

Rothman and colleagues (2003) propose that information or messages should be tailored to the processes of decision-making that individuals confide in when they are in a particular phase of changing their behavior, such as tailoring messages to help individuals: (1) Decide whether there is a problem requiring behavioral change, (2) choose whether they should act on the problem and with what course of action and (3) implement their behavior (Rosen 2000, Burkholder, Evers 2002, Rothman, Salovey

2007). Petty and Cacioppo (1986) argue that message tailoring is important for facilitating the individual internalization process, as described in section 3.2.2.

### **(2) Goal framing**

The SDT framework holds that goal framing has major influence on motivation, due to it signaling what is important or valued within a particular context (Pelletier, Aitken 2014). Goal framing determines what individuals attend to, what becomes cognitively accessible to them in terms of knowledge and attitude and what behaviors they consider to reach the goal (Vansteenkiste, Simons et al. 2004, Vansteenkiste, Lens et al. 2006). Vansteenkiste (2004) suggests that how goals are defined, being intrinsic or extrinsic, leads to substantially different outcomes. For instance, goals such as sustainable behavior as a contributor to a clean environment are considered intrinsic, whereas goals claiming that pro-environmental behaviors can save or earn money are perceived as extrinsic. In a study concerning the teaching of environmental practices among college students, Vansteenkiste (2004) found that goals attending to intrinsic values and communicated in an autonomy-supportive way, rather than controlling, facilitate learning, resulting in the learned behavior persisting over time.

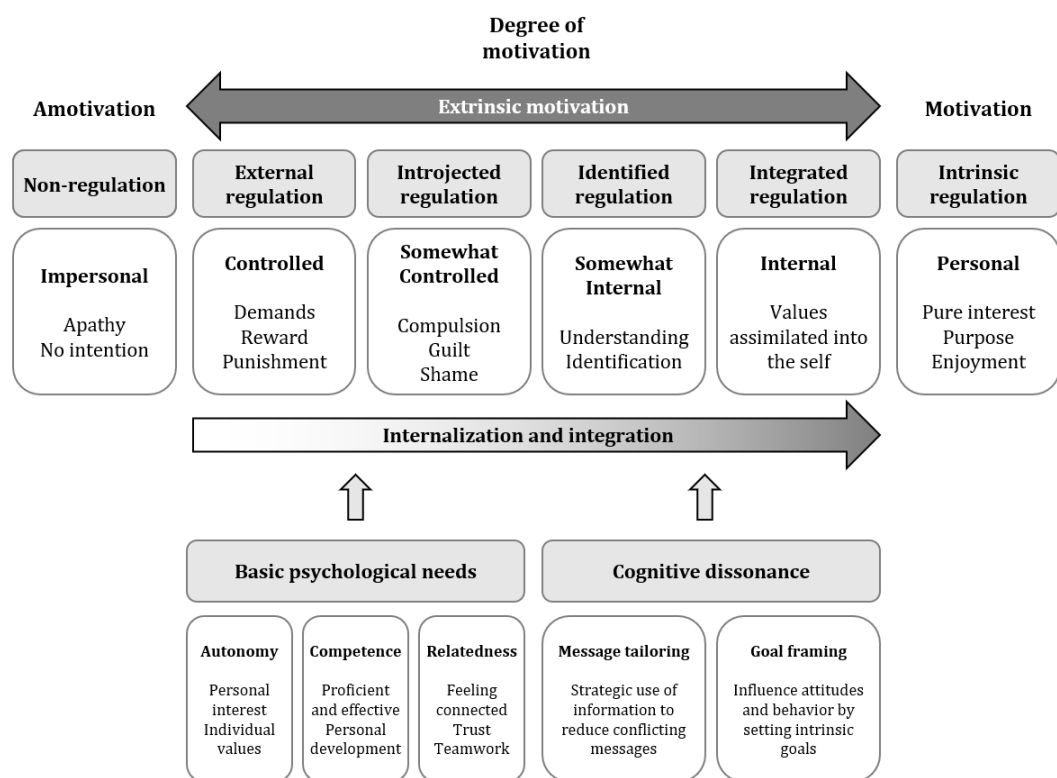
## **3.4 Theory discussion**

Although the SDT's perspective on human motivation has received a great deal of attention over the past decades, it has been criticized for being unable to adequately account for the complexity and diversity of human conduct, such that particular human behavior would only occur on the basis of unmet psychological needs (Pyszczynski, Greenberg et al. 2000). Further, Gilbert and colleagues (2014) argue that the relationship between relatedness and intrinsic motivation is less straightforward than the same linkage for autonomy and competence and suggest that further research is needed to explain this relationship. Furthermore, Hayes (2014) emphasizes that social and organizational contexts can lead organizational members to develop shared cognitive frameworks and mental models restraining them to think 'within the frame'. In addition to this argumentation, some authors raise the problem that although organizational members may overcome their motivational and cognitive barriers preventing sustainable development, there may be other factors that prevent change or maintain inertia, such as interdependent relationships or value commitments with external parties, embedded in the organizational structure (Hayes 2014, Gersick 1991, Tushman, Romanelli 1985). Consequently, the role of motivation in the adoption of sustainable strategies could be contested on a meso-perspective, which implications have not been developed further in this thesis.

### 3.5 Summary of theory

In summary, the formulation of a person's motivation is a result of both internal and external factors, which determine the extent to which a person's motivation is self-determined. Self-determined motivation is important to ensure that behaviors are maintained over time, which decreases the need for control mechanisms of the sought-after behaviors. To develop self-determined motivation, three fundamental psychological needs must be accommodated for the individual; the need for autonomy, competence and relatedness. Sought-after behaviors such as ones promoting sustainable and environmental action, can also be promoted by reducing cognitive dissonance and strategic tailoring of sustainability-related communication and goals. These issues combined, summarized in Figure 3.3, will be used as tools to answer the question of what motivates private equity professionals to engage in pro-sustainable behaviors.

*Figure 3.3. Summary of SDT with keywords (Ryan, Deci 2000b, Mayer 2014), edited by von Perner and Westén, 2020*



## **4. Method**

### **4.1 Method of choice**

#### **4.1.1 An abductive and qualitative study**

This study has been developed in an abductive process, in which theory and empirical data have been collected in parallel and formed one after the other. Since the theory in the paper captures several potential areas of research, the empirical data was used to narrow the study to the areas relevant to the theoretical framework, which would not have been possible to achieve with a purely deductive or inductive research method. Furthermore, because the focus of this study is to investigate the factors shaping private equity professionals' motivation in relation to pro-sustainable behavior, the study has been conducted through qualitative semi-structured interviews. This approach gave the interview subjects the opportunity to express themselves freely and the authors the possibility to gain in-depth insights by asking follow-up questions. Consequently, the interview subjects themselves could prioritize what factors they considered to influence their motivation, which for the authors would have been difficult to determine beforehand in a fully structured interview process. According to Bell and Bryman (2019), the disadvantage of a semi-structured interview process is however that comparability between interview subjects may vary.

#### **4.1.2 A study based on constructivism and interpretivism**

This thesis is based on a constructivist ontological observation perspective of the world, in which the experiences of the authors and the interviewees are considered social constructions in a constant process. According to the constructivist perspective, the social entities and cultures creating individuals' perception of reality is constructed by the interaction of humans, as opposed to the objectivist point of view which holds that social phenomena exist independently of human interaction (Bell, Bryman et al. 2019). The constructivist approach has been chosen because private equity firms are economic and societal constructions existing purely because of human activity. Because this study is concerned with the connection between the firm and human behavior, in other words a form of interaction, the constructivist ontological approach is suitable to answer the research question.

Furthermore, the epistemology considerations of this thesis concerns knowledge about motivation. The purpose of this study is to explore the factors shaping private equity professionals' motivation to engage in pro-sustainable behavior, which requires interpretation of empirical data that can embody this purpose, for example, identified attitudes, perceptions and actions among the interviewees. To achieve this, the study is therefore based on an interpretivist approach, where the behaviors of the interview subjects are mediated through the authors' subjective interpretation

thereof. According to Bryman and colleagues (2019), this approach is suitable to understand how and why things occur in a social setting, which is important in the examination of human behavior.

### **4.1.3 Cross-sectional research design**

This study has been conducted according to a cross-sectional research design which observes multiple cases during one point in time. As such, a variety of contextual and individual factors among the interview subjects have been examined, which is encouraged in qualitative studies (Bell, Bryman et al. 2019). Cross-sectional studies allow for comparison of patterns between subjects and groups, generating various perspectives of sustainability among private equity professionals. The purpose of this study, being to investigate the motivation of individuals, stresses the need for deep understanding about the subjects perception and the environment in which they reside. Interviews were therefore considered to provide more detailed answers compared to for instance a survey. In addition, a case study was not considered relevant as it could reduce the variety of contextual factors that could potentially influence motivation. A case study would not shed light upon the differences between the sustainable practices among firms, which is of interest in this study.

## **4.2 Sample**

### **4.2.1 Interviewed individuals**

This study is based on the interviews of 15 individuals. Based on a private equity firm screening with the use of Prequin, 20 Nordic companies were randomly selected for interviews.<sup>9</sup> In total, 47 people were contacted, of whom 24 responded, which subsequently led to 15 interviews. The interviewees were contacted by e-mail through the contact details on the firms' official websites.<sup>10</sup>

The selection of individuals to contact was based on the intention to obtain varied data, in terms of potentially visible differences such as, for example, gender, age, ethnicity and also, depending on the disclosure of employee information, position, education, length of employment and previous work-experience. Despite this initial aim for variance, some individuals chose not to respond or referred to colleagues, mostly senior ones. This subsequently led to interviews with nine respondents who were part of the top management or had official responsibility of the sustainability agenda of the firm. The other six were involved in sustainable activities to various extents. An overview of the participating firms and respondents are summarized in Table 4.1.

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<sup>9</sup> Prequin.com is an online database and platform designed to serve professionals in the asset management industry and offers screening tools according to certain criteria, e.g. private equity firms.

<sup>10</sup> See Appendix 1. for E-mail to prospective interviewees.

*Table 4.1. Overview of organizations and respondents<sup>11</sup>*

<b>No.</b>	<b>Respondent*</b>	<b>Company**</b>	<b>Gender</b>	<b>Position***</b>
1	Anna	Company A	Female	Associate
2	Adam	Company A	Male	Principal
3	Amanda	Company A	Female	Associate
4	Ben	Company B	Male	Partner
5	Carl	Company C	Male	Partner
6	David	Company D	Male	Director
7	Dina	Company D	Female	Head of Sustainability
8	Eric	Company E	Male	Associate
9	Edvard	Company E	Male	Director
10	Finn	Company F	Male	Associate
11	George	Company G	Male	Partner
12	Hanna	Company H	Female	COO
13	Ian	Company I	Male	Partner
14	Joanna	Company J	Female	Partner
15	John	Company J	Male	Partner

## 4.3 Interview process

### 4.3.1 Collection of empirics

Based on the chosen theory of SDT and the preliminary literature review, some elements were initially found to be potentially interesting to answer the thesis question. These included organizational and contextual variables, such as the background and responsibilities of the interviewees. Also, the interviewees knowledge and perception of sustainability would be important to answer what motivates them to engage in pro-sustainable behaviors. Furthermore, the foundation of SDT, being autonomy, competence and relatedness, served as further themes in the interviews. The three initial elements are displayed in Table 4.2, which all together laid the foundation of the interview guide.<sup>12</sup> Before the interview guide was finished, a pilot interview was held with a private equity professional, after

<sup>11</sup> \* = Fictive names are used throughout the study; \*\* = Company names have been anonymized throughout the study; \*\*\* = Official positions according to official company information.

<sup>12</sup> See Appendix 2. for Interview guide.



which smaller adjustments were made in the design. The answers from the pilot interview have not been included in this study.

*Table 4.2. Themes in interview questions*

<b>Introduction</b>	<b>Sustainability</b>	<b>Main questions</b>
Background Responsibilities	Sustainability definitions Attitude towards sustainability	Autonomy Competence Relatedness

Out of 15 interviews, ten were held at the company premises and the remaining five were held over video link (4) and telephone (1). This was due to some respondents being abroad at the time of the interviews and because of required social distancing in the COVID-19 outbreak as of 2020. The interviews varied between 28 minutes and 58 minutes, with an average and median of 45 and 46 minutes respectively.<sup>13</sup> Over the course of the interviews, certain patterns, concepts, similarities and differences could be identified in the empirical data. After the thirteenth interview, it was discussed whether or not the study had achieved empirical saturation. In order to more easily draw a conclusion on the matter, four additional interviews were planned of which two took place and the remaining were canceled upon the authors' proposal.

#### **4.3.2 Process and analysis of the empirics**

The empirical data in this study has been processed by voice and text analysis, as all interviews except for one were recorded and transcribed accurately. Themes were identified by looking for patterns, such as repetitions, similarities and concepts in accordance with the process of thematic analysis (Bell, Bryman et al. 2019). The themes were subsequently coded into first order concepts, second order themes and eventually led to aggregated dimensions. This provided a holistic view of the empirics viewed in Tabell 4.3.

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<sup>13</sup> See Appendix 3. for Information about the interviews.

*Table 4.3. Overview of the empirical data*

<b>Aggregate dimensions</b>	<b>Second order themes</b>
<b>Sustainable trends in private equity</b>	Legitimacy Responsibility Business impact
<b>Sustainable practices in private equity</b>	Contingent practice Integrated practice Mission or value
<b>Elements that shape individual practice and perception</b>	Development and competence Measurability Leadership Personal values

#### **4.4 Ethical considerations and implications**

Certain ethical aspects have shaped the execution of this study to increase its' dependability and authenticity. This mainly concerned the collection of empirics, the process and analysis of empirics and the integrity of the interviewees. To increase the likelihood of truthful and sincere answers from the interviewees, the collection of empirical data and the publication of the same have sought to keep the interviewees and the firms they work for anonymous. The interviewees were informed, before the collection of data took place, that the purpose of the study is research related and that they at any time could withdraw their consent to participate in the study without further explanation.<sup>14</sup> Furthermore, because all interviews were recorded and transcribed except for one, the quotes of the interviewees have been recited according to their wording as far as possible. However, 13 out of 15 interviews were conducted in Swedish with quotes translated to English. As language carry cultural and idiomatic differences, direct translation occasionally caused empiricism being misrepresented from its original meaning, to which flexibility in the translation was applied to maintain original meaning (Xian 2008).

#### **4.5 Method criticism**

Particular method criticism can be raised to several aspects of the study. To begin with, criticism can be directed towards the transferability of the study.

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<sup>14</sup> See Appendix 2 for details in the Interview guide.

Because of the cross-sectional design, the focus on individuals in particular context and time and the interpretivist nature of the study, the results could hardly be transferable to a different context. Moreover, Bell and colleagues (2019) argue that the credibility decreases with cross-sectional studies, as they rather display connections and covariances, rather than causality, which is due to the fact that the data is collected simultaneously. Attempting to increase credibility and transferability, the study has been enriched with thorough details of individual and contextual nature, which generates a thick description for potentially rewarding future research areas, as recommended by Bell and colleagues (Bryman, Bell et al. 2019). This endeavor was facilitated by, for instance, in-depth interviews that took place in the natural environment of the respondents, increasing ecological validity, and the careful preparation and review of important subjects to ensure congruence between the observed empirical data and relevant concepts. According to Bell and colleagues (2019), collection of empirical data in natural environments could increase credibility and in this study, ten out of 15 interviews were conducted at the respondents' offices respectively. However, the empirical objectivity could be questioned due to only 15 interviews being made. Also, because human behavior and motivation is constantly changing due to internal and external factors, a replication of the study with similar results is highly unlikely.

Other critical aspects could be raised as regards the method. For instance, although thematic analysis allows for flexibility in analytic options, it can also dilute the depth and complexity of the analysis (Braun, Clarke 2006). This applies to the different themes in the analysis, but also to the versatile and wide definition of pro-sustainable behavior. As suggested as a useful method for under-researched areas by Braun and Clark (2006), this circumstance has been addressed by the provision of more detailed and nuanced account of sustainability, as explained in section 2.2.

Lastly, factors concerning confirmability are to be raised. The sought-after diversity among interview subjects, described in section 4.2.1, was diminished due to that the initially targeted interview subjects forwarded the interview invitation to their colleagues who they considered more suitable to participate in the study. Finally, the authors have considered their personal relationship to the private equity industry which could affect the credibility of the study. One of the authors was working with private equity at the time the thesis was written, whereas the other author was considering a career within the industry. As suggested by Bryman and colleagues (2019), the authors have therefore applied reflexivity to the research method, meaning that personal connections and their influence are thoroughly discussed. However, it is difficult to determine to which degree this has affected the outcome.

## 5. Empirics

Private equity firms have adopted different strategies to address sustainability. To gain a brief understanding of organizational and contextual variables, an overview and examples of the observed strategies and the respondents' position in relation to them are illustrated in Figure 5.1 and Figure 5.2.

*Figure 5.1. Overview of sustainable practices in PE (von Perner and Westén, 2020)*

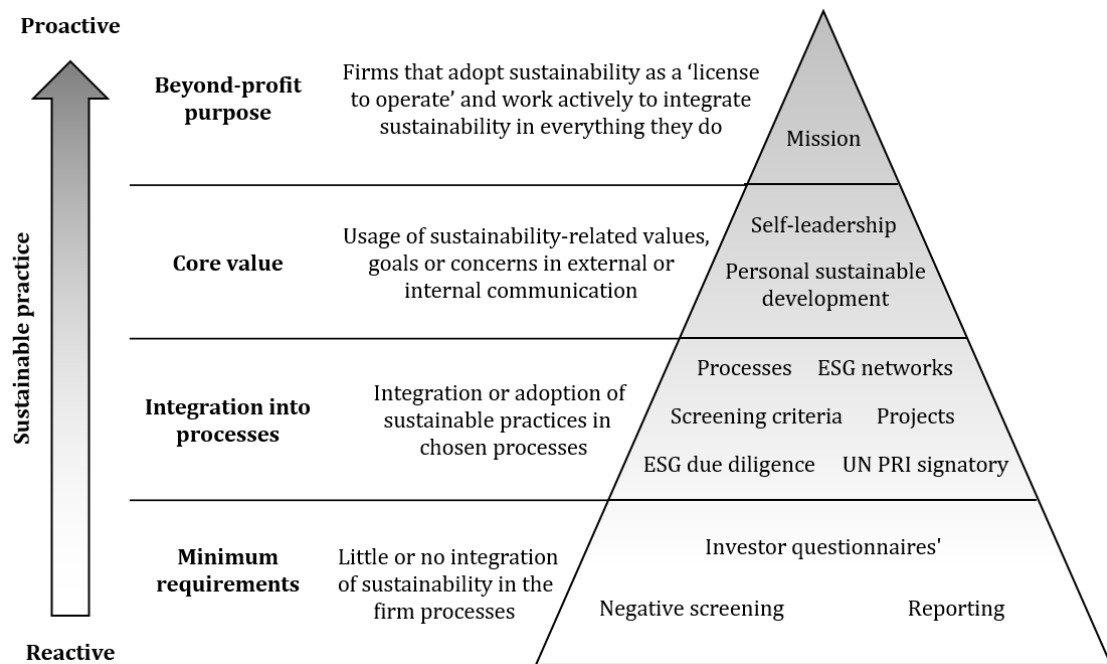
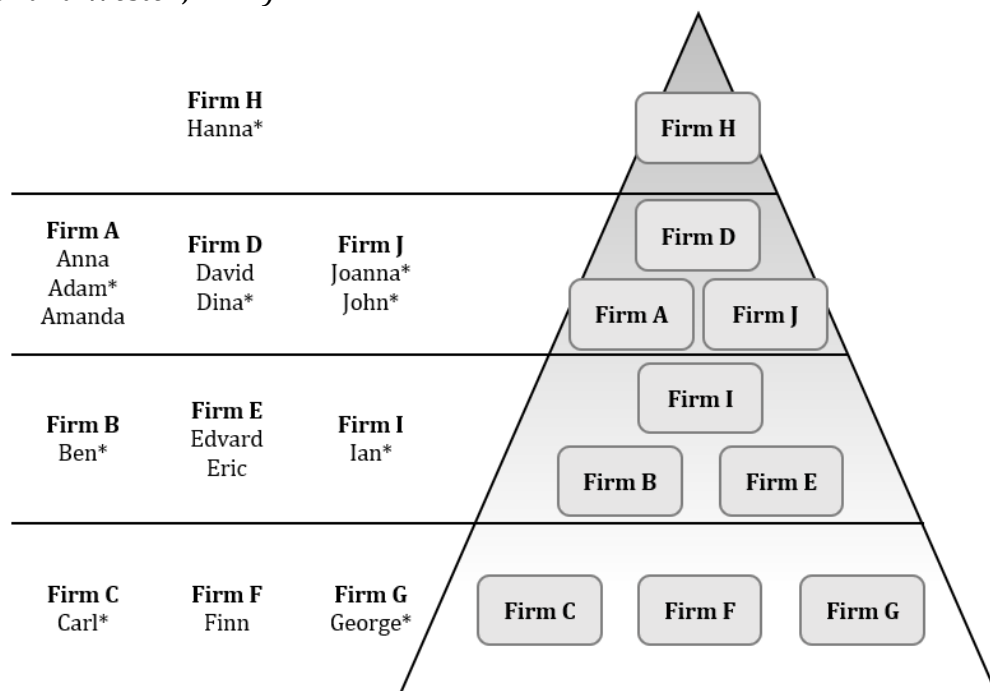


Figure 5.2. Positioning of respondents in relation to sustainable practices in PE (von Perner and Westén, 2020)



\* = Part of management or officially responsible over corporate sustainable agenda

## 5.1 Sustainability trends in private equity

As a way of introduction, the respondents were asked about their general perception about sustainability and the private equity industry. While all respondents acknowledged sustainability's prominence in society, they have different views on how it relates to their work. The majority of the respondents also think their firms can improve the way they work with sustainability.

### 5.1.1 Legitimacy

David, investment director, says: *"Sustainability has gone from being a niche for early adopters, to companies being villains unless they have a sustainability plan [...] Companies will not get away with the same things anymore. It seems to have switched from risk minimization to value creation through sustainability. It is probably some kind of inflection point"*. Joanna, partner, says: *"Private equity has had a bad reputation, like greedy types who kidnap companies, squeeze the last penny out of them and sell them expensive. I believe that sustainability has given the industry an opportunity to show that it can develop companies, give something to the society AND make money at the same time"*. Carl, partner, says: *"If you want to build a premium brand and have good reputation as an investor sustainability is absolutely key"*.

### 5.1.2 Responsibility

Anna, associate, says: *"We [the private equity industry], if any, are a very small, concentrated group of people with a huge potential to influence and I think we have a responsibility to do as much as possible. The world is literally going to hell and if WE do not do anything. Well... Everyone with a lot of money and capital have a huge responsibility and in that regard I think we have a long way to go"*. Hanna agrees with this view: *"We [the private equity industry] have an extra responsibility because we choose where we to put our money and invest. It is a catalyst for sustainable transition of companies. If many refrain from investing in certain types of companies, the company changeover will be accelerated or replaced with better alternatives"*.

### 5.1.3 Business impact

However, not everyone believes that sustainability will generate better returns. George, partner in investor relations, argues that the belief in sustainability as a profitable investment strategy is optimistic: *"It is easier to talk about sustainability than to actually do something about it and there is perhaps a superstition that you will get rich by creating sustainable*

*companies. It is for other reasons you do that according to me [...] If your ultimate goal is to invest in companies that do much more ESG friendly work you have to be prepared to not generate the same returns". When George is asked whether he thinks the industry is obligated to act responsibly he says: "Not more than other owners or managers, listed companies or investment companies. We have the same responsibility as everyone else. No more, no less".*

## **5.2 Sustainable practices in private equity**

### **5.2.1 Contingent practices**

Many respondents explain sustainability work tasks are associated with measuring and reporting and that the information is used for internal and external communication. Some point to increased investor demand as a common cause for external reporting. Amanda, associate, says: *"I fill out SDG questionnaires every year from our investors and those have just grown in numbers. Both in length and in number of questions".*<sup>15</sup> George explains that meeting investor demand is crucial for fund-raising and that *"Reporting is becoming a hygiene requirement from our investors. They demand it".*

However, many respondents perceive reporting as a less intriguing aspect of their work. When George is asked what he likes less about his job he says: *"There are repetitive reporting bits that I have to get hold of. At a larger company, a junior would probably do them, while here, it is more natural for me to do it".* Finn, associate, describes reporting as time-consuming bureaucracy and is ambivalent to its value: *"Well, when you are responsible for someone else's money, like pension money, you have a fiduciary duty and simply cannot do as you wish. Sure, that is great, it is very important that everything is done by the book [...] But I try to be as honest as I can. There is an element in sustainability that is very administrative. It really is to tick the box".* Adam, principal, thinks it is problematic when people do things they do not understand or perceive as valuable: *"Such as when people are being forced to measure. They are going to do it, but they are still going think, 'Argh, all those stupid KPI's".*<sup>16</sup>

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<sup>15</sup> See Sustainable Development Goal, Table I.

<sup>16</sup> KPI refers to Key Performance Indicator, Table II.

### 5.2.2 Integrated practices

Partly because of reporting is being perceived as a tedious side-task, some firms have chosen to integrate sustainable practices into everyday operations and employee's work-tasks. Dina, head of sustainability, says: *"Internally, I make sure that [Company D] has integrated sustainability into the whole investment process. Everything from how we screen potential investments, work with companies during our ownership period and when we eventually reach exit".* Ian, partner, believes in integration: *"It [sustainability] has to be as integrated as possible. That is the only way to work with these questions in a resilient and sustainable way [...] If it is driven as a side project nothing gets done. Personally, I would rather have a less ambitious sustainability project that is fully incorporated than something that is very ambitious, but separate".* Other reasons for integration are to make employees think of sustainability as a "no-brainer". John, partner, says: *"It is a big step for the private equity industry to go from an ESG report with some metrics to actually see sustainability as an integrated part of operations [...] But the only way to work with this is to think about it in everything we do".*

### 5.2.3 Sustainability as a firm mission or core value

Some firms have integrated sustainability as part of their firm mission or core values. Joanna, with a background as a management consultant in the healthcare industry, says: *"It is not enough to push profitability as far as possible and create growth, but you also have to help and solve bigger issues in the system. For us it can be like; 'how can we, through the companies that we invest in, reduce the cost of health care', or 'increase access to healthcare', or 'make better care products available' and then do it in a sustainable way. With that approach, it becomes natural to have a holistic perspective and to look at sustainability more broadly".*

However, some are sceptical to using sustainability as a firm mission or as a value. Finn says: *"There are players in this industry who say they follow the UN, what are they, 17 goals? It is pretty damn delicate how you define those goals".* Adam seems to agree, but also adds: *"The SDG's are terrible, because they are too general. Nevertheless, they are the business plan of the world".*

Some firms integrate sustainability into the personal development plan. Anna explains: *"When we do our personal performance review, there are different things that we are judged on and one thing is our core values, where one is [sustainability-related]. And then you get a scale from 1-5 where people*

*get to rate you; where are you on this scale?”<sup>17</sup> Amanda, at the same firm, says the evaluation is done as part of the integration of sustainability: “Earlier, I have spoken to investment professionals at [Company A] and asked ‘what is your portfolio company doing in terms of sustainability?’. And you know they tracked revenue, EBITDA and very specific company metrics, but SDG’s were not easily tracked in the minds of these investment professionals. Once sustainability was introduced as a KPI in the personal performance reviews, it became very much a no-brainer for them”.<sup>18</sup> When Amanda is asked why the investment professionals did not act before she says: “It was not that they did not care, but more that sustainability was not really seen as an... an integral part of operations”.*

## 5.3 Elements that shape individual practice and perception

### 5.3.1 Development and competence

The majority of the respondents think it is difficult to work with sustainability and claim that the movement evolves gradually. Many also think sustainable investing is a big leap for their firms and have adopted different strategies to speed up the process.

Hanna says: *“We are in a good position, considering that we have chosen investments based on sustainability from the beginning. Of course, we have companies that could do better, but to turnaround an existing portfolio or even your own company is a whole different story. I think people fear to address the issues for real. It is seen as a huge job to be done”*. Ben says: *“We are not like [Company H]. We have our own differentiation profile and our ways of working, which we have done for ages. It is in our DNA and what makes sense to us. Even if we want to work more with sustainability, we do not have the expertise to jump right at it. So, sustainability becomes like digitizing a company, you implement it step by step”*. Adam says: *“It is funny how many times mass extinction has occurred due to environmental causes. We, humans as a race, have the capacity to kill ourselves. We have the power to create technological development at an exponential scale that could make us go extinct. The thing is, that collective sense-making is not exponential”*.

Some firms hire people to work specifically with sustainability. David says: *“Many of my colleagues from SSE or Hanken or with other economic degrees*

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<sup>17</sup> The quote that originally contained the explicit firm value has been changed into “sustainability-related” for the purpose of integrity and keeping the respondents and their firms anonymous.

<sup>18</sup> Investment professional refers to a person working with investment activities in private equity firms, and could include for instance analysts, associates, directors, or partners.



*maybe do not have the right tools [...] To be good at sustainability you have to be more hands on. You need specific competence, which we [Firm D] have thanks to Dina, whereas the rest of us are just happy supporting amateurs".<sup>19</sup> Edvard says: "To be honest, people are at very different stages in their development and I have to work differently with different individuals. To some I get to be the good cop, with others the bad cop".*

### 5.3.2 Measurability

The majority of the respondents mention quantification of sustainable practices as a challenge and an opportunity. On the one hand, many consider quantification of sustainable initiatives to be an important communication tool, but experience difficulties in measuring and also question whether the things measured have real effects.

Amanda says: *"This industry runs on numbers. From people, investors, to everyone... and our funds! They like numbers. WE like numbers. It is a very quantitative-driven industry"*. Amanda also acknowledges differences between measuring economic performance and ESG performance: *"How do you quantify your impact? For example, if you have an impact on the environment or the society. There is not like an immediate feedback loop, like with EBITDA. You will not see the results until like.. years, or decades"*. David says: *"It is difficult to quantify and the thing is that even if you make things quantifiable, it is not always the measurable that is the most relevant"*.

Hanna tells about a portfolio company of Firm H in the water pumping industry: *"You can either profile yourself as a pump service company that create resource efficiency gains, or that you are part of the future to ensure a sustainable water system in Sweden. There is different energy in that"*. Hanna says these things are communicated through a report that is published quarterly on their website. David criticizes how numbers are being used: *"All major PE funds have a sustainability report that says how much carbon dioxide emissions they have saved and blah, blah, blah. But they do not really say anything. They only measure the easy stuff. There are probably very few in the investment teams who keep track of it and who care about it, if I am to criticize the industry. It is pretty much 'make us look good', a little bit of greenwashing quite simply. Partly because it is hard to measure. How much money you earn, well, that is a figure. But are you environmentally sustainable? Well... how do you put a figure on that?"<sup>20</sup>*

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<sup>19</sup> SSE and Hanken refer to Stockholm School of Economics and Hanken School of Economics.

<sup>20</sup> Greenwashing is a concept originating from activist Jay Westerveld in 1986, referring to activities by organizations intended to make people think that they are concerned about the environment, even if their businesses harm the environment (Oxford Dictionary 2020).

### 5.3.3 Leadership and culture

Many respondents raise lack of diversity in private equity problematic. Ian thinks the industry must become more diverse: *"The industry is still homogenous from a people perspective. It is not good for the investment decisions and how we work with our portfolio companies"*. Ben says: *"There are a lot of financial analysts here. They would probably believe that someone has lost their mind if we went all in on sustainability"*. Anna continues: *"Many are money and numbers driven. Many come from the investment banking dream in London, where they push people to their limits to make money. You would not be in London otherwise. It is those kinds of people the private equity industry has attracted historically and these people have not considered sustainability as important"*.

Some firms hire their people based on sustainable grounds. Hanna explains: *"It is important enough for us to have a common core. We have rejected candidates that have a very strong resume, but who, from a value-perspective, do not have a worldview close enough to what we believe in"*. Anna suggests the opposite holds as well: *"It is harder to attract talent. In job interviews, candidates ask us; 'How do you work with sustainability?'. If we do not provide a good answer we fear that we will not be able to employ the best people"*.

Many say that change mostly come from the top. Edvard says: *"It originates from the partner group. They have a will to push these questions forward"*. Having a CEO talking about sustainability seems important to some professionals. Amanda explains: *"Our CEO has made it very clear that sustainability is part of his long-term vision for [Firm A]. That trickles down to all levels of the organization"*. Anna seems to agree: *"Especially for junior employees, because they easily do what superiors tell them to do [...] Leaders have a huge responsibility to guide what kind of behavior we should encourage and work for"*. At some firms, superiors praise professionals openly for their sustainable work, David says: *"You get cred for talking about sustainability. Actually, sometimes I am surprised how much the partners care and talk about it"*. Adam, however, think that leaders in general are too narrow-minded to act on sustainability: *"Leaders do not feel to much of a pressure and everything just slowly deteriorates. Have you ever worked in a dysfunctional organization? Do not underestimate the power of inertia. Organizations can be super dysfunctional and still work"*.

#### 5.3.4 Personal values

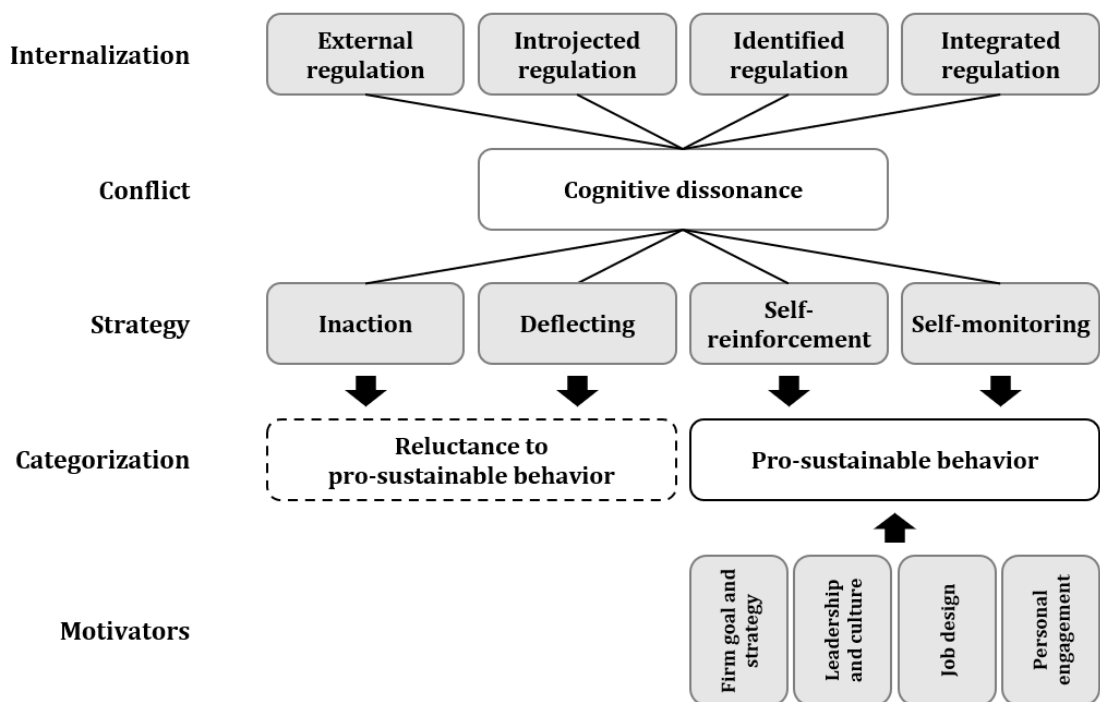
When private equity professionals are asked about what motivates them personally, the answers vary greatly. Ben explains: *“In our world, we celebrate on two occasions. First is when we make an investment and that is when we make the toast, because you never know, things could go south. Second time is when we make an exit. Sure, it is great if the company does well the years after, but exit is what counts on a personal level. It is how you are evaluated as an investor”*. Anna says: *“People who work here get the opportunity to invest in the funds, making the work even more personal, more from the heart. Both financially, but the companies also become our little babies. It is a whole different thing. It gets a lot more fun”*.

David says: *“I do not work here because I love sustainability. It is not what gets me out of bed in the morning [...] But I would feel very bad to talk with my wife at home if I were an environmental destroyer”*. Adam refers to incentives as “super powers” and think that the only way to make people work with sustainability is to make it personal in some sense for them: *“People care about their own garden, but not the world”*. When Adam is asked what made him engage in sustainability he answers: *“In some sense, I consider myself to be an extinction rebellion”*. Others mention their children as a reason, for instance Dina who says: *“On a personal level I feel that it is my responsibility towards my children. I want to be a person who can look back and say I was on the right side of history”*.

## 6. Analysis

Private equity professional's motivations to pro-sustainable behaviors vary and they are in fairly different phases of the internalization process, which raises certain questions as to why that might be. This analysis will investigate their motivation starting with an analysis of the dimensions of internalization, how the professionals experience dissonance and their strategy to reduce it. The analysis will thereafter present the implications on the professionals' cognition and behavior by using the SDT framework of autonomy, competence, relatedness, message tailoring and goal framing. The areas of the analysis are briefly summarized in Figure 6.1.

Figure 6.1. Overview of analysis (von Perner and Westén 2020)



### 6.2 Internalization

The empirical data shows that private equity individuals are motivated to various extent to engage in pro-sustainable behaviors because they have *internalized* pro-sustainable behaviors differently, meaning that they embrace or identify with such behavior differently. Some private equity professionals engage in pro-sustainable behavior to avoid the feeling of guilt or shame, such as being seen as a bad citizen, parent or employer, which Deci and Ryan (2000a) refers to as *controlled, introjected integration*. Others show an even lower degree of *internalization*, as they merely engage in pro-sustainable behaviors to avoid direct punishment such as withdrawn funding, which is an example of *external regulation* (Ryan, Deci 2000a). A few professionals show

signs of *integrated regulation*, as they think pro-sustainable behavior is aligned with an important aspect of themselves, such as acting to preserve human existence, future generations or personal values or beliefs, which is the most internalized form of *extrinsic motivation*. However, most private equity professionals experience *identified regulation*, meaning that they understand pro-sustainable behaviors and find them fairly valuable, to for instance attract resources such as talent or capital. The implications of this information can serve as an indicator for certain *internal or external factors* that may affect individuals to become either *motivated* or *amotivated*, but it does not provide a deeper explanation of how these phenomena have been processed by the individuals, which is important to understand how the motivation has been developed.

## 6.2 Cognitive dissonance

### 6.2.1 Recognition of a conflict

The majority of private equity professionals are well-informed on the importance of sustainability initiatives to solve global challenges, such as the climate crisis or the reduction of carbon dioxide. They also acknowledge their ability and capacity, in terms of being investors and allocators of resources, to solve for these challenges. Furthermore, they acknowledge that the solving for these problems could include trade-offs in well-being, as the majority of them perceive themselves to be operating within boundaries. Hence, the professionals experience a problem and are, to say the least, not unaware of how their behavior stands, and could stand, in relation to the identified problem. This could arguably be seen as the presence of a conflict, that according to Pelletier and Aitken (2014) put private equity professionals in a psychological condition of *cognitive dissonance*.

Based on the empirical data, it is evident that private equity professionals choose to handle the dissonance differently. Their strategies to alleviate the discomfort occurring due to the *cognitive dissonance*, include questioning the general definition of sustainability or reducing the urgency associated with sustainability, which are examples of *deflecting*. Others choose *inaction* or change their behavior to a little extent. However, strategies also include adapting and changing into to new behaviors, while still acknowledging the hardships in doing so.

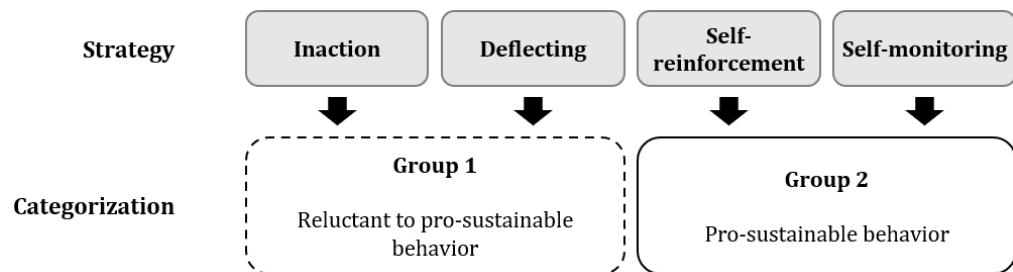
The empirical data shows that the choice of strategy is highly dependent on whether professionals perceive the materialization of sustainable

behavior or initiatives as an essential means of becoming sustainable. In other words, whether sustainability can be materialized by quantitative or qualitative means, such as measuring social or environmental impact. Consequently, measurability plays an important cognitive function, because it has the capacity to prove the correlation or causality between the individual's behavior and the identified problem. For instance, such as the relationship between actions targeting global challenges and the effects of the action or behaviors. Because of this, the identified behaviors in the empirical data can be divided into two groups, further described in the next section.

### 6.2.2 Strategies to solve the conflict

Based on the dissonance strategies, the private equity professionals in this study can be divided into two groups: (1) One group of professionals who tend to be reluctant to engage in pro-sustainable behavior, characterized by *inaction* and *deflecting*, and (2) a second group of professionals who tend to use *reinforcement* and *self-monitoring* to reduce the dissonance and are motivated to engage in pro-sustainable behaviors, summarized in Figure 6.2.

Figure 6.2. Categorization and description of strategic groups (von Perner and Westén 2020)



#### (1) Behaviors in Group 1

Individuals in Group 1 tend to consider measurability as a criterion for deciding whether or not to change their behavior. Because they are unable or find hardships in quantifying sustainability, they refrain from changing behavior. As a consequence, they tend to question and problematize sustainability and seek and rely on information that confirms that sustainability is less relevant for the private equity industry or themselves for various reasons. The most illustrating example in the empirical data concerns questioning sustainable practices as economic value-creators, which is an

example of *extrinsic goal* orientation, that decreases motivation (Vansteenkiste, Lens et al. 2006, Deci, Ryan 2000b). Consequently, they rather change their attitude towards pro-sustainable behaviors as being less valuable or important. As a result, these individuals tend to experience themselves as *externally or introjectionally regulated* and less motivated toward pro-sustainable behaviors.

### **(2) Behaviors in Group 2**

Individuals in the second group also perceive measurability as important. However, instead of relying on information that reduces importance or *intrinsic* value of sustainability, they instead tend to reduce the importance of materializing and measuring sustainability. As such, they find other sources to become behaviorally or cognitively aligned with the problem, for instance by framing sustainability and desirable behaviors in non-quantifiable or vague ways. These other sources compensate for the hardships in measurability and ultimately explain what motivates private equity professionals to engage in pro-sustainable behavior, which is developed further in the next section.

## **6.3 Determinants for motivation to pro-sustainable behavior**

When private equity professionals reduce the importance of measurability as a means of being becoming sustainable, such as with Group 2 above, four aspects are identified as being particularly important in motivating the individuals to engage in pro-sustainable behaviors, namely:

- (1) Having sustainability as a firm goal or spoken strategy**
- (2) Having leaders and a culture that encourage sustainable practices**
- (3) Designing sustainability-related work-tasks in an autonomous way**
- (4) Making sustainability personally engaging for the professionals**

These four determinants are found to accommodate the private equity professionals psychological needs of autonomy, competence and relatedness, which make them more motivated to engage in pro-sustainable behaviors.

### **6.3.1 Firm goal and strategy**

The empirical data shows that the majority of private equity professionals associate sustainable practices with something that needs to be measured, especially in terms KPI's, which is an example of *extrinsic goal framing* that

tends to decrease motivation. This could be because failure to meet these criteria, due to the hardships in relevant measurements and benchmarks, could decrease people's sense of being *competent* and *autonomous*. In contrast, goals that are framed *intrinsically*, for instance "*our firm care about sustainability*", increase motivation. This could be due to that sustainability expressed as intrinsic goals changes what becomes cognitively accessible to the individuals and they therefore engage in what they believe are sustainable practices, even though they cannot prove whether the practices actually are sustainable or not. The individuals can therefore keep their own "*definition*" or "*sense-making*" of sustainability, which increases their sense of *autonomy* in their work. This effect could be seen as a form of "*psychological greenwashing*", which make them more attentive to sustainable practices.

**Proposition 1:** Private equity professionals are motivated to engage in pro-sustainable behavior if sustainability is defined as an *intrinsic goal*, as it increases their sense of *competence* and *autonomy*.

### 6.3.2 Leadership and culture

Motivation tends to be higher where sustainability is frequently talked about by company leaders and employees. This could be because talking and nudging people in the workplace create autonomy-supportive cultures, which also function as invisible steering mechanisms. Cultures create a collective sense-making which increases the sense of *relatedness*. For instance, some partners express their care for ESG, praise pro-sustainable employees publicly and create "success stories" around ESG, which many perceive as inspiring, especially junior professionals. This could illustrate how *message tailoring* and *message framing* can help to move professionals in a pro-sustainability direction (Pelletier, Aitken 2014). Hence, leaders are important "*culture makers*" who increase the sense of *relatedness* concerning sustainability, which enhances *intrinsic motivation*.

**Proposition 2:** Private equity professionals are motivated to engage in pro-sustainable behaviors if leaders frequently provide and tailor information about sustainability, as it builds sustainability-supportive culture.

### 6.3.3 Job-design

Professionals in firms who integrate sustainability in the on-going operations tend to be more intrigued by sustainable work than professionals who perform predetermined tasks, initiated by someone



externally ad hoc, which SDT describes as *controlled motivation* (Deci, Ryan 2000a). By making sustainability part of ordinary work tasks, professionals experience an increased sense of responsibility and commitment, which are signs of increased *autonomy* and *internalization*. This is especially evident among employees who are responsible over a certain area, project or task, for example a portfolio company. This could be because such tasks allow them to pursue intellectual freedom and *autonomy* over the outcome. The benefit with autonomy-supportive work methods is the increased likelihood of behaviors being maintained over time, which is because the individual's perceive their work to be an expression of themselves which creates psychological comfort (Deci, Ryan 2000a).

**Proposition 3:** Private equity professionals are motivated to engage in pro-sustainable behaviors if sustainability is integrated into their work tasks, as it increases the sense of autonomy which facilitates internalization.

#### 6.3.4 Personal engagement

People who value sustainability on a personal level tend to engage in pro-sustainable behavior to a larger extent. For instance, some individuals become engaged because their personal relationships with different stakeholders who may be negatively affected by global challenges, such as current or future family members. Others find sustainability attractive for other reasons, such as purely job-related purposes or personal conviction. This implies that strategic use of *message framing* and *message tailoring* could be important means of engaging people in sustainable practices. By communicating sustainability as a way of obtaining benefits on a personal level, the degree of perceived *autonomy* and *internalization* increases. This could arguably be seen as a way to reduce the discomfort and perceived level of personal sacrifice occurring when individuals experience *conflicting messages* and *cognitive dissonance*. This indicates that leaders could increase the degree of pro-sustainable behavior by communicating sustainability with a personal connection valued by the individual.

**Proposition 4:** Private equity professionals are motivated to engage in pro-sustainable behavior if they find a personal connection to sustainability.

## 7. Discussion

### 7.1 Answer to the thesis question

When a person becomes aware of the discrepancy between their beliefs, such as caring for the environment and wanting to contribute to a sustainable future, and their non-action to solve it, people tend to reduce the importance or seriousness surrounding the issue, rather than changing themselves and their behavior (Harmon-Jones 2000, Higgins, Rhodewalt et al. 1979). Pelletier and Aitken (2014) suggest that this might occur because changing behavior is more difficult than changing the attitude or perception to the problem. In view of this, the Self-Determination Theory by Deci and Ryan illustrates that the internalization of attitudes and beliefs surrounding an issue, such that individuals perceive sustainability important and personally endorse its' value, is critically important to develop and sustain sustainable behaviors over time. As such, change comes from the inside. Furthermore, the SDT provides guidance on how leaders can act to influence attitudes towards sustainability in an effective way. This qualitative study examines what motivates private equity professionals to engage in pro-sustainable behaviors in their work by applying the SDT. Empirical data from 15 private equity professionals have been analyzed with the purpose to answer the research question:

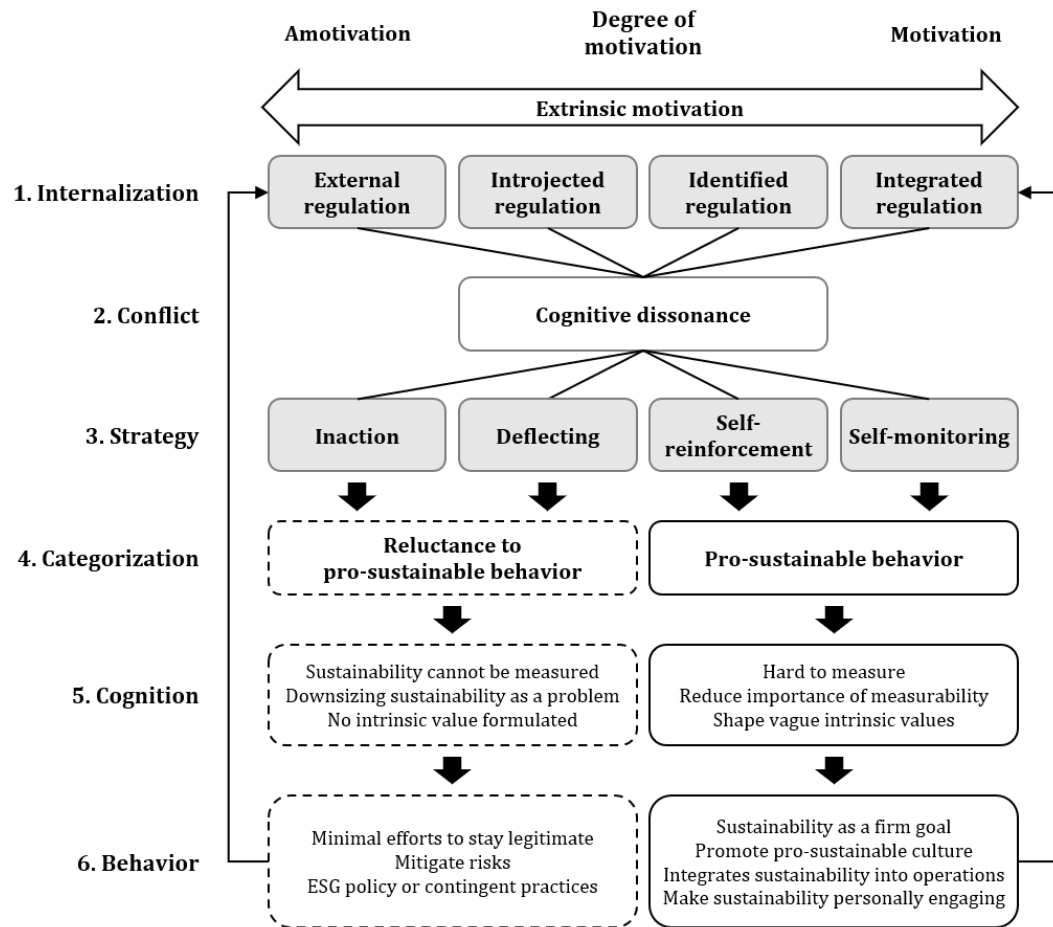
*What motivates professionals in private equity firms to engage in pro-sustainable behaviours?*

Based on the analysis in the previous section, the conclusion is that the four following propositions serve as an answer:

- (1) Having sustainability as a firm goal or spoken strategy***
- (2) Having leaders and a culture that encourage sustainable practices***
- (3) Designing sustainability related work tasks in an autonomous way***
- (4) Making sustainability personally engaging for individuals***

Based on the analysis in section 6, the process of adopting pro-sustainable behaviors can be summarized by Figure 7.1, which has been created by the authors.

Figure 7.1. Process of the adoption of pro-sustainable behavior (von Perner and Westén 2020)



### 7.1.1 Discussion and practical implications

As discussed in the literature and research review in section 2, the academic literature of active ownership among asset managers has focused on how asset managers, mostly in public markets, can successfully apply different change strategies to reach sustainable policies or practices in their portfolio companies. However, quite little has been concerned with the change of asset managers themselves, especially private equity investors, and this study has aimed to shed light upon where they stand. Consequently, this study complements previous research by studying the private equity industry from a firm-internal perspective. By understanding the underlying reasons why and how individuals in these firms perceive their engagement in sustainable practices, organizational initiatives can be made more efficient in adapting and implementing sustainable strategies. Through adoption of the four propositions in section 7.1, private equity managers could increase individual motivation, hence the likelihood of successful implementation of sustainable initiatives. However, although the four propositions explain what motivates private equity professionals

to engage in pro-sustainable behaviors, they are not mutually exclusive and can not single-handedly answer the research question, which is to be problematized in the next section.

### **7.1.2 Limitations with the study**

Some limitations can be raised with this study. As this study is based on a constructivist and interpretivist approach, the presentation of empirical data is dependent on the authors' ability to interpret and present it in a fair way. In addition, the simplification of the theoretical framework, SDT being researched from various angles, impose limitations to the study as other factors could be considered. Further, the study is limited to the Stockholm offices of Nordic private equity firms, with empirical data skewed towards senior managers of those firms, which may not be the most representative subjects to answer the thesis question. Moreover, although the propositions for motivation cover concepts that were most frequently raised during interviews, they are not necessarily the most decisive factors. Furthermore, because the respondents worked at the private equity firms at the time of the interviews, they may have excluded information or left biased answers.

Finally, the study is limited by the wide definition and universal presentation of sustainability, when sustainable development can in fact be of a very practical nature. Sustainable development is a complex concept that contains many elements and humans could be limited to apprehend or influence everything in its spectrum.

### **7.1.3 Suggestions for further research**

Although the four propositions suggested in this study are relevant in answering the research question, the purpose of this study is not to reach a holistic and generalized conclusion. To increase transferability, further studies exploring pro-sustainable behaviors could therefore be justified. To begin with, an increased sample of private equity professionals from an expanded geographic area could be of interest to increase variance and reveal other or additional motivational factors than the proposed ones. Potentially rewarding future studies could explore and analyze the differences in individual motivation depending on the characteristics of the private equity firm further, incorporating factors such as firm size, age and type of investments, as they could deepen the understanding of contextual factors that shape motivation. Also, applying of a closer level of detail to motivation depending on position in the organization could further pose

interesting differences with relevant implications for managers who consider implementing sustainable strategies.

## **7.2 Conclusion**

Change in companies take place through internal or external driving forces or through a combination of both. This study is based on the notion that corporate conduct is likely to change due to global challenges. Some who have lagged behind in addressing these issues are legislators, who have now begun to formulate directives for how private equity firms and asset managers should behave in this change. However, as with all legislation, it is subject to political discretion and its definitive form is unclear at present. In an environment that lacks a consistent and holistic framework for sustainability, it also turns out that the matter of sustainable change within private equity has received little attention in research. To fill this gap, this study was made, as a way to increase understanding of how managers can address sustainable change from the inside rather than from the outside, based on the most fundamental prerequisite for changing company policy and practice – people and their motivation. The main reason why private equity firms are interesting in this context is because the industry has proven to be extremely resourceful and have a large impact on the companies they own. Small changes in the way these companies operate could therefore have major effects.

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# Appendix

## Appendix 1. E-mail to prospective interview subjects

Hi [employee of company X],

We are two students from Stockholm School of Economics who this spring will write their Bachelor's thesis in management, which will focus on private equity and sustainability.

Our perception is that the financial industry is increasingly gaining interest in how to incorporate sustainable practices in their core operations as well as their portfolio companies. Having been part of the Global Challenges Foundation (<https://globalchallenges.org/en/>) education package at SSE over the course of two years and because of our interest of the private equity industry, we are interested in understanding more about challenges and opportunities of sustainable development in a company like yours. We would therefore like to ask for the possibility to do an interviews with you in the near future? The study does not require that you have worked with sustainability before.

We expect to do the interviews within the following weeks (preferably week 8, 9 or 10). We fully understand that you might have a busy schedule and we are therefore very flexible with both time and place for the interview. In case you are unable to meet on office hours, we would like to welcome the opportunity to do the interview over a cup of coffee nearby your office or any other location of your preference.

Our hope is that the study can contribute with insights and give you the opportunity to reflect on sustainability practices within private equity. The study is, of course, anonymous for both the interviewees and the companies as such. We would be truly grateful if you or any colleague of yours would be available.

Kind regards,  
Malin Westén  
Magnus von Perner

## **Appendix 2. Interview guide, translated into English**

### **Ethics**

1. The participation in this study is voluntarily.
2. In our study, which is our Bachelor thesis in management at Stockholm School of Economics, you as a participant and your employer will be anonymized.
3. Also, we will not disclose any other participants in the study, neither to the employer nor other participants.
4. You may interrupt and/or leave the interview at any time and without disclosing the cause to us.
5. We would like to ask whether we have permission to record the interview, so we can transcribe it afterwards?
6. Before we start, do you have any questions to us?

### **About the individual**

1. Could you tell us a little bit about yourself?
2. Where did you study?
3. For how long have you been at Company X?
4. Could you tell us a little bit about your role?
5. What other work experience do you have apart from Company X?
6. What made you apply for a job within the PE industry? What attracted you?
7. What do you like the most about your job? Why?
8. What do you like the least about your job? Why?
9. If you could change anything about your job, what would it be?

### **Sustainability**

1. How would you define sustainability?
2. What is your take on the current debate about sustainability in media, society etc.?
3. Do you think that the current debate has affected the PE industry? In which way? And why? (Do you agree with the arguments? Why/why not?)
4. Do you experience that there is a sustainable pressure on the PE industry of any form? Why/why not? By which stakeholders? Which do you perceive as the most important?
5. Has this pressure become more apparent over the years? Why/why not?
6. What role does the PE industry has with regards to sustainability according to you? Why?
7. Do you see any potential conflicts of interests? Why/why not?

### **Autonomy**

1. Has Company X acted on sustainability? Why/why not? How?
2. How would you describe Company X's action?
3. What consequences does it have?

4. How does it relate to your role and your work?
5. Does your work relate to sustainability in other ways? How? Why/why not?
6. Do you consider these tasks as important? Why/why not?
7. Are you engaged in sustainability? Why/why not?
8. What would make you want to engage in sustainability? Why?
9. How would you describe the act on sustainability by Company X? What would you change? Why/why not?
10. Do you experience any pressure in this regard? Why/why not?
11. Do you think Company X has a duty to act? Why/why not?

### **Competence**

1. Do you think that Company X has the right competence to engage in sustainable tasks/initiatives? Why/why not?
2. Do you think you have the right competence/leadership to do these tasks? Why/why not?
3. Do you consider these tasks to be challenging? Why/why not?
4. How is the outcome from these sustainable activity evaluated?
5. Are they perceived as relevant to you personally?

### **Relatedness**

1. How would you describe your workplace? Culture? How do you communicate?
2. What behaviors are appreciated in your workplace?
3. How does your co-workers react when you perform tasks that relate to sustainability?
4. If you initiated new initiatives within sustainability, how do you think your co-workers would respond to it?
5. To whom do you think the work of sustainability is the most important to?
6. How do you relate to sustainability? Is there any area you find more valuable than others? (E.g. 17 SDG's)
7. Do you experience any pressure in this regard? Why/why not?

### Appendix 3. Information about interviews

No.	Code name	Time	Date	Place
1	Anna	56:13	2020-02-18	Video conference
2	Adam	58:00	2020-02-18	Firm office
3	Amanda	56:14	2020-02-19	Video conference
4	Ben	44:38	2020-02-25	Firm office
5	Carl	40:51	2020-02-25	Firm office
6	David	52:01	2020-02-26	Firm office
7	Eric	36:34	2020-02-27	Firm office
8	Dina	31:25	2020-02-27	Telephone
9	Finn	44:31	2020-02-28	Firm office
10	Hanna	57:55	2020-02-28	Firm office
11	George	28:38	2020-03-02	Firm office
12	Edvard	40:36	2020-03-05	Firm office
13	Ian	28:11	2020-03-06	Firm office
14	Joanna	55:24	2020-03-13	Video conference
15	John	55:24	2020-03-13	Video conference
<b>Minimum</b>		<b>28:38</b>		
<b>Maximum</b>		<b>58:00</b>		
<b>Average</b>		<b>45.36</b>		
<b>Median</b>		<b>44.23</b>		