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# **DRIVERS OF SUSTAINABILITY IN THE SWEDISH FINANCIAL MARKET**

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A Qualitative Study on the Swedish National Pension Funds

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## Abstract

Over the past few decades, the world has seen the continuation and rise in the severity of issues facing the long-term wellbeing of people and the environment. To surmount these pressing challenges, society is aiming to change the standard profit-maximizing models of corporations to ones that include considerations for sustainability issues. One of the most powerful players in financial markets that can persuade corporations to enact these sustainable practices are institutional investors due to their high amounts of resources. Specifically, this study takes a closer look into the relationship between one of Sweden's most prominent institutional investors, the AP Funds, and the corporations in which they invest. Ultimately, we determine how the AP Funds influence corporations' sustainability agendas and how the methods of their influence have changed from 2008 to 2021. In this study, we interviewed 10 employees of the AP Funds with roles in the areas of sustainability, management, and equity to gain a better understanding of the strategies and methods that the AP Funds' use to influence corporations. Some of the key components of the interviews were the communication between the AP Funds and their investees via corporate dialogues and the exercising of formal shareholder rights. Through the analysis, we discover that the AP Funds find immense value in corporate dialogues that are informal and in-person, with high levels of availability between the two parties. Over the course of the timeframe, the sustainability dialogues have become more frequent, more efficient and more casual. In terms of the evolution of their methods of influencing, the AP Funds have become more obstinate in their claims as their objectives have converged with those of the public. Finally, we note that through their excellence in corporate dialogues, the AP Funds have acted as institutional entrepreneurs in the Swedish financial market. They are able to actualize their highly valued interests in sustainability by their possession of sufficient resources, including capital, guidance from Parliament and area expertise.

**Keywords:** Active Ownership, Corporate Dialogues, Institutional Entrepreneurship, Institutional Owners and Socially Responsible Investing.

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# 1. Introduction

## 1.1. Background

As global economies are becoming more interconnected than ever, the constraints of geography are shrinking and a new landscape for conducting business has accompanied it. This phenomenon of interconnectedness and interdependence, known as economic globalization, has given rise to multinational corporations, intertwined economies, open trade routes, and overall large-scale macroeconomic development. The benefits of such a worldwide system are numerous. Individuals enjoy an abundance of products at low prices, organizations maximize their profits through efficient production and governments receive significant amounts of income through trade taxes and economic stimulation. However, these benefits come at immense costs. In the past few decades, the intensification of globalization has given rise to issues ranging from the exploitation of labor forces to the destruction of ecosystems. These global issues have been stressed by the United Nations, which, in 2015, established 17 global goals to combat them. One of the biggest key players in achieving these goals are corporations, due to their size and influence on a multinational and transnational level.

Due to corporations being accountable to their shareholders and dependent on them for access to capital, shareholders enjoy a unique position in terms of their ability to influence corporations to take responsibility. They differ from other stakeholders, as they are, in fact, owners, which grants them the right to decide about corporate conduct.

Many of the largest institutional shareholders, including those located in Sweden, have signed the document “Principles of Responsible Investment” (PRI) with the aspiration of developing a more sustainable global financial system. Institutional shareholding has grown tremendously in the Swedish financial market during the recent decades and institutional investors are increasingly engaging with their investees through corporate dialogues and the use of formal shareholder rights. The Swedish national public pension funds, the AP Funds, were, in 2019, introduced to what can be described as “the world’s strictest legislation for sustainable management of pension capital.”

The growth of institutional shareholding in Sweden and shareholders' potential leverage on corporations justify an analysis on how Swedish institutional investors exert influence on their investee corporations' sustainability agendas. Furthermore, because of the evolution of attitudes in the public and corporate spheres towards socially responsible investing (SRI) and corporate social responsibility (CSR), we find the change of interactions over time to be of particular interest.

## **1.2. Prior Research and Research Gap**

Even though the number of researchers interested in active ownership and institutional investors is increasing, it is still limited to relatively few studies (Sjöström, 2010). Many have highlighted a lack of research on governance dialogues as tools for influence (Goranova and Ryan, 2014; Rehbein, Logsdon and Van Buren, 2009; Goodman, Louche and Cranenburgh, 2014). This could be due to the fact that this type of dialogue is conducted outside of the public eye, which makes it more difficult to analyze (Rehbein, Logsdon and Van Buren, 2009). The strength of the shareholders' actual impact is thus underestimated, as a great deal of the influence shareholders have is unseen (Rehbein, Logsdon and Van Buren, 2009; Goranova and Ryan, 2014; Sparkes and Cowton, 2004).

Earlier research focused on the viewpoint of investee corporations in response to shareholder dialogues (Rehbein, Logsdon and Van Buren, 2013). Other studies have researched how collective action is creating opportunities for owners to increase their influence over investee corporations (Gond and Piani, 2012). Further supplementary research has also analyzed stakeholders' influence on owners and managers, but their effect on corporate dialogues has yet to be discussed in detail (Guay and Sinclair, 2004). Within Swedish research, descriptive studies have been presented on how Swedish institutions conduct informal conversations with company management to nudge them in the desired direction (Sjöström, 2014; Nyqvist, 2015).

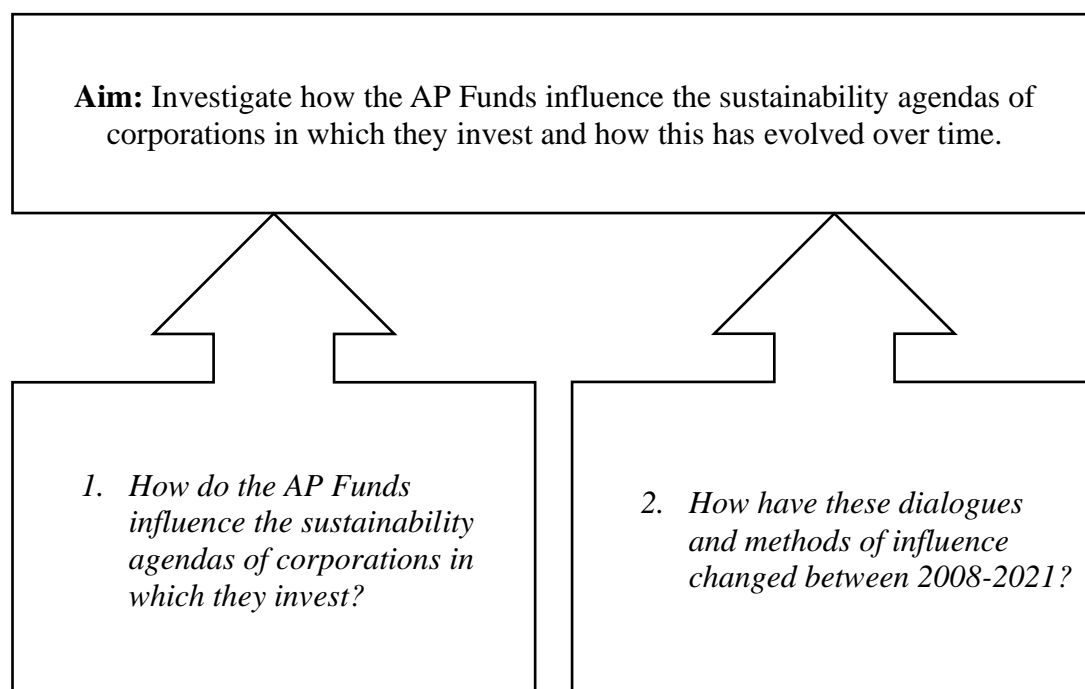
During our exploration of relevant academic literature, we noticed that previous studies had a tendency to view shareholders as extraneous groups. This view of them as outsiders might be true when they are investing in global corporations where it is virtually impossible to be engaged in any meaningful way, but their misrepresentation contributes to a skewed picture of their actual relationship to Swedish corporations. Motivated by the underestimation of the value of governance dialogues between shareholders and corporations, we will examine the idea of

corporate dialogues as a key tool for driving corporations' sustainability agendas. We intend to contribute to the research field by increasing the understanding of how the AP Funds influences its investee corporations regarding sustainability issues through their active engagement with them. This type of research could possibly reveal aspects that prove relevant for shareholders seeking to promote sustainable activities.

### 1.3. Purpose and Research Question

The purpose of this thesis is to investigate how the AP Funds have influenced the sustainability agendas of corporations in which they invest and how these dialogues and the methods of influence have changed over time. Thus, the research question is two-folded as the following:

*Figure 1. Aim and Research Question*



### 1.4. Primary Focus and Delimitations

The study will focus on the sustainability work the AP Funds conduct with their investee corporations. We have chosen to limit our research to the First to Fourth AP Funds as they are similar in their scopes. Furthermore, we have chosen to limit our research to the communication that they initiate with corporations that are listed on the Swedish equity market, which is motivated by differences between foreign corporations and Swedish ones and in the



environments surrounding them. Emphasis was placed on selecting institutional investors in Sweden as investors in Nordic countries score high on international ESG ratings (Semenova and Hassel, 2019). The scope of the study has been delimited to the time period of 2008-2021, which is encouraged by earlier research conducted by Sjöström in 2008. She found that the AP Funds have a marginal direct impact on their investee corporations but can potentially have a significant indirect impact by reinforcing external pressures and providing relevant knowledge (Etiken, miljön och pensionerna, 2012). A further exploration of the topic is of particular interest because, since 2008, sustainable activities have become increasingly important in the public and corporate spheres, and we are approaching the date set for accomplishing the millennium goals.

### 1.5. Abbreviations

*Table 1.*

<b>AGM</b>	Annual General Meeting
<b>CSR</b>	Corporate Social Responsibility
<b>ESG</b>	Environmental, Social and Corporate Governance
<b>IO</b>	Institutional Owners
<b>SRI</b>	Socially Responsible Investing

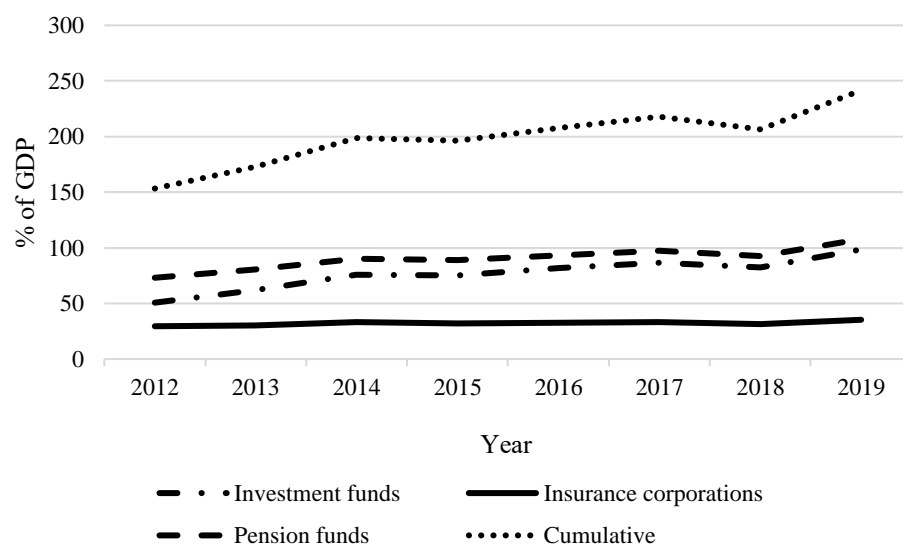
## 2. Literature Review

To develop an understanding of existing bodies of research relevant to our thesis, an introduction to institutional owners and the literature revolving around their ability to change corporate behavior will be presented. Subsequently, a pertinent review of sustainable development from the perspective of both corporations and investors will be conducted.

### 2.1. Institutional Investors and their Ability to Change Corporate Behavior

Institutional investors, or Institutional Owners (IOs), are organizations that serve as financial intermediaries by investing capital into securities and other assets on the behalf of others. Their motivations differ from other investors as they are guided by a unique set of costs, benefits and objectives. For example, the beneficiaries of these shares, which is often the general public, tend to prefer that their funds are invested in a socially responsible way. The past few recent decades have seen a rapid surge in the assets under management by IOs in Sweden, making their influence on financial markets significantly higher today than it was historically (OECD, 2020).

*Figure 2. Assets under Management of Swedish IOs (OECD, 2020)*



The academic debates on IOs have revolved around corporate governance (Koladkiewicz, 2002; Parthiban and Kochhar, 1996), investor practices that are associated with engaging actively (McNulty and Nordberg, 2015) and institutional ownership's impact on company performance (Chaganti and Damanpour, 1991; Shleifer and Vishny, 1986). The sizable amount

of capital that institutional shareholding involves makes them actively monitor the corporations, which has also been reflected in academic literature as a large area of the research on IOs concerns corporate governance (Ferreira and Laux, 2007).

The majority of research has been conducted within Anglo-American countries, displaying a clear limitation that can be expanded upon. Outside of this Anglo-American scope, research by Aggarwal, Erel, Ferreira, and Matos (2011) illustrated that the primary driver of developments in corporate governance are IOs based in countries with high levels of minority shareholder protection (Boubakri, Cosset and Choi, 2011). Furthermore, a study by Nathalie Del Vecchio and Carine Girard (2013) found evidence that pension funds in France acted as institutional entrepreneurs by initiating changes and actively participating in the implementation of new norms in the field of shareholder activism. Institutional entrepreneurs refer to actors who promote and lead the acceptance of new institutions<sup>1</sup> in society (DiMaggio, 1988; Zimmerman and Zeitz, 2002). A study conducted in Scandinavian countries found that institutional investors in Sweden were a thousand times more active than those in Denmark (Birkmose and Strand, 2013). Their findings emphasized the importance of governance models that are only employed in Sweden, namely the Nomination Committee, which works as an effective way to transfer power from the Board of Directors (BOD) to the shareholders. Clearly, the mechanisms and nuances of an IO's geographic location are impactful variables that dictate the possibility to push sustainability agendas.

## **2.2. Conceptualization of Sustainability**

Scholarly interest in sustainability within the business sector and the financial sector has increased tremendously since sustainable development was conceptualized by the World Commission in 1987. Their report, "Our Common Future," defined sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (1987). For the purpose of this thesis, and its ontological stance, all terms relating to sustainability will refer to the interviewees' own interpretations of the term.

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<sup>1</sup> Institutions, in a theoretical sense, should not be confused with institutional organizations

### **2.2.1. Corporate Social Responsibility**

The term CSR was popularized in academic literature in the latter part of the 20th century. It is the corporate pursuit of overcoming social, economic and environmental problems outside the general scope of a business. CSR can be divided into four levels: economic, legal, ethical and philanthropic (Carroll, 1991).

The fundamental reasons why firms might choose to engage in CSR activities have been viewed through a multitude of different theoretical schools. Agency theorists view the disclosure of CSR activities as a method for managers to reduce monitoring by external parties (Shamil, Shaikh, Ho, and Krishnan, 2014). Institutional theorists view a corporation's engagement to CSR to be the result of the social context in which it operates (Bansal, 2005) and believe that the expansion of CSR's utilization is dependent on its normalization by other actors within the same field (Russo, 2003). Legitimacy theorists believe that in order to pursue CSR activity, the requirement of a "license to operate" form must be fulfilled (Lu, Abeysekera, and Cortese, 2015; Deegan, 2002) and that the engagement in such activity is due to their desire to be viewed as legitimate by other actors (Haniffa and Cooke, 2005.) Stakeholder theorists believe that managers choose to engage in CSR behavior to fulfill the demand of their stakeholders (Ioannou and Serafeim, 2015), and that CSR is an attempt towards fulfilling a "social contract" (Freundlieb, Gräuler and Teuteberg, 2014).

Due to the many broad and detailed facets of CSR and the various lenses through which they are viewed, the concept of CSR can become highly complex with nuanced viewpoints outside of the scope of this paper. The theoretical underpinnings of CSR activity utilized in this paper will align with the ones of stakeholder and institutional theorists, because we find that stakeholder and institutional pressures are the primary factors governing corporation's CSR decisions.

### **2.2.2. Socially Responsible Investing**

A growing number of retail and institutional investors are committing to integrating social, ethical and environmental considerations into their process of selecting firms to invest in. SRI is the allocation of capital into securities based on not only standard investment criteria, but also on social, environmental or ethical goals (Cowton, 1999). This investment strategy's rise was largely seen in the 1980s (Renneboog, Horst et Zhang, 2008) and numerous studies have

explored how SRI has become a more and more utilized strategy in the modern era (Déjean, Gond and Leca, 2004; Louche, 2004; Leca and Naccache, 2006; Bengtsson, 2007). Déjean et al. (2004) emphasized the need for institutional entrepreneurs in the implementation of this new investment strategy in France, where the first socially responsible investors set an example for other investors to follow.

In the adoption of this fairly new investment strategy, IOs have proven to play an important part for its expansion and longevity. Ultimately, their commitment to this strategy has been said to contribute to the transition to a more sustainable society (Crifo, Durand, and Gond, 2019). A number of studies have analyzed the relationship between institutional ownership and corporations' likelihood of committing to the advancement of CSR agendas. However, these studies have reached contradictory findings. One branch of the research, such as that of Johnson and Greening (1999) and Di Guili and Kostovetsky (2014), found a positive correlation between institutional ownership and CSR. Another branch of the research, such as that of Coffee and Fryxell (1991), Barnea and Rubin (2010) and Dam and Scholtens (2012), found no significant relationship between the two variables.

#### **2.2.2.1. Shareholder Activism**

Socially responsible investors are likely to engage actively with their investee corporations. An overview of the literature of active ownership in relation to sustainability efforts could provide an understanding of how a socially responsible investor can push its investee corporations in the desired direction. Active ownership, is “exercised when shareholders use their ownership position to actively influence company policy and practice.” The methods of influence used by an active shareholder include a wide range of practices, such as the filing of resolutions, the use of their voting rights and the use of face-to-face meetings (Sjöström, 2020).

The stream of literature on shareholder activism in relation to sustainability efforts has investigated shareholders' impact on both corporations and stakeholders. Specific topics that have been researched within this stream have been stakeholder salience, the efficiency of corporate dialogues, target firm characteristics, the filing of shareholder resolutions and divestment (Sjöström, 2020).

A portion of the research on corporate dialogues involves the concept of stakeholder salience. Originating from organizational theory, the stakeholder salience concept provides an understanding of how certain stakeholder claims become more important to the corporation than others' (Mitchell, Agle, and Wood, 1997). The saliency framework was later developed by Gifford (2010), who contextualized it in terms of shareholders. His findings suggested that a shareholder's claims were more likely to be prioritized by the investee corporation if its claims were supported by strong arguments and if they aligned with the values of company management. The manifestation of legitimacy has been found to be the most crucial attribute to the success of corporate dialogues. Studies also suggest that the size of the shareholding is not as important as one might expect for the success of the dialogues (Sjöström, 2020).

There are several additional factors that are not within the scope of the shareholder salience framework that researchers have found to be important to the success of engagement processes. An example would be target firm characteristics. These characteristics are factors that are outside of the shareholder's locus of control, but can be important for the selection of companies to invest in. For instance, corporations with larger financial safety nets, meaning excess capital reserves, are more likely to be receptive to engagement in sustainability (Sjöström, 2020).

An explicit way for shareholders to display their demands is the filing of shareholder resolutions. Evidence shows that shareholder proposals that are requesting the company to show greater transparency are correlated with enhanced CSR disclosure by the corporation. Additionally, a longitudinal study found that it was less complicated to gain support for transparency-oriented proposals than for those that called for considerable changes (Barko, Cremers, and Renneboog, 2018). In accordance with the shareholder salience framework, shareholder proposals written by investors that possess higher levels of legitimacy are more prone to be successful. Potential criteria that must be met to obtain the status of a "legitimate shareholder" include the overall financial size of the shareholder, the recognition of the shareholder as socially responsible (in media) and the overall status of the coalitions of which the shareholder is a member (Sjöström, 2020).

### **3. Theoretical Framework**

The following chapter will explain and justify the theoretical underpinnings that are considered relevant for this thesis.

#### **3.1. Theory Choice**

Motivated by our belief that the CSR activity of corporations is influenced mainly by institutions and stakeholders, both institutional theory and stakeholder theory are considered relevant to our analysis. They both share a similar, social constructivist and ontological stance, and are, in our sense, complementary. Institutional theory can enhance the understanding of to what extent the AP Funds' claims are aligned with the existing institutions in the social contexts of which they are a part, while stakeholder theory can be useful for the understanding of how their corporate engagements are practically manifested.

#### **3.2. Institutional Theory**

Institutional theory redefined the drivers of organizational establishment and change. It postulated that corporate shifts were motivated by external forces, rather than corporate deliberations and resulting efforts (Meyer and Rowan, 1977). The root of the theory is the importance of institutions in society, which can be described as "social constructions of norms that govern how organizations and individuals act" (Meyer, 2008). The last decade's institutional research has given particular attention to the outcomes and consequences of institutions. Some scholars have aimed to develop the nature of contextual features, or the characteristics of the institutions that surround corporations. Other scholars have highlighted patterns of institutional compliance and non-compliance and the importance of legitimacy in the eyes of institutions. Finally, other scholars have studied legitimacy conveyors and how legitimacy judgements are socially constructed and thus how institutions are created and sustained (Greenwood, Oliver, Laurence and Meyer, 2017).

##### **3.2.1. Institutional Logics, Isomorphism, Institutional Entrepreneurship and the Embedded Agency Paradox**

To understand the overarching nature of shareholder influence, the social context in which shareholders operate must be grasped first, and, thereby, the concept of "institutional logics" is relevant to explain. Institutional logics are "invisible assumptions about reality, which consists of values, norms, beliefs, and shared meaning systems". Institutional logics provide a

sense of order that guides the actions and interactions in a specific social context (Greenwood, Oliver et al., 2017).

Mimetic isomorphism seeks to explain why organizations that differ in core operations and industries display similar characteristics, due to, for example, cultural expectations and trends. This concept can help explain why modern times have seen such an increase in CSR practices and SRI strategies among different types of organizations. An explanation for this convergence of traits is the desire of organizations to gain legitimacy within its social context (DiMaggio and Powell, 1983).

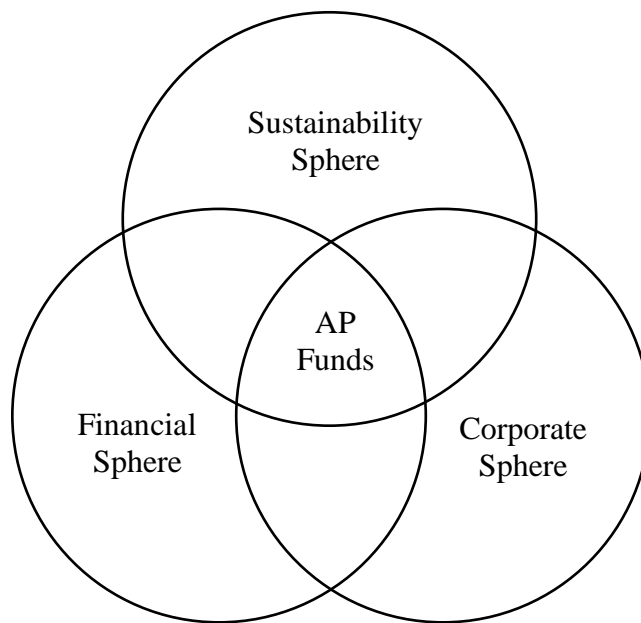
Moreover, the idea of institutional entrepreneurship is relevant for the explanation of how certain actors are able to induce change into existing institutions or create completely new institutions. It was originally introduced in research conducted by DiMaggio (1988) where he claimed that new institutions are established when actors with sufficient resources wish to actualize certain highly valued interests. Not only do institutional entrepreneurs work as actors of change in fields in forming new institutions, but they also maintain or disrupt existing institutions (Lawrence and Suddaby, 2006).

However, since institutional entrepreneurs are products of the institutions in which they exist, institutional theory is unable to fully explain how they can manifest original change. This is called the embedded agency paradox (DiMaggio and Powell, 1991; Seo and Creed, 2002), and it is the result of institutional theory's isomorphic view. The paradox is: "how can agents within a field promote new practices if these agents are embedded in the existing institutions and subject to their regulative, normative and cognitive pressures?" If actors are entirely integrated in the institutional field, then they would be unable to desire or formulate alternative ways of doing things (Garud, Hardy and Maguire, 2007:674).

However, while the embedded agency paradox potentially limits the application of institutional theory on paper, its integrity collapses in practice. It is evident that new institutions do manifest as a result of original disruptive ideas that are not predicted by the institution. It is possible that the actors are not fully integrated within the institution and might face pressures from other institutions. Lastly, it would appear that the embedded agency paradox underestimates the creativity of actors to formulate new ways of doing things. Therefore, the embedded agency paradox does not negate the validity of institutional theory and our use of it.



*Figure 3. Simplified Overview of Institutional Spheres Impacting the AP Funds*



### **3.3. Stakeholder Theory**

Stakeholder theory provides a conceptual foundation to identify, categorize by importance and ensure cohesion and alignment with all the stakeholders pertinent to a corporation. This theory was introduced by Freeman in 1984 where he defined a stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984:46). In alignment with institutional theory, it assumes that organizations are constrained by the social environment of which they are a part and risk losing legitimacy if they do not respond to stakeholder pressures and social expectations (Meyer and Rowan, 1977; Freeman, 1984).

#### **3.3.1. Stakeholder and Shareholder Salience**

Mitchell et al. (1997) built upon stakeholder theory by proposing that not only do the stakeholders need to be categorized by importance, but also that managers should allocate their attention to them accordingly. This proposal is the foundation of the stakeholder salience model and explains the phenomenon in which highly noticeable stakeholders are given greater privilege.

Gifford’s framework of shareholder salience, a branch of stakeholder salience in which only the shareholders are considered, can help to understand how the sustainability claims of the AP

Funds reach their investees' corporate agendas (2010). The AP Funds are influential to corporations because they have high levels of shareholder salience. Findings suggest that the level of stakeholder salience, and thus shareholder salience, is positively correlated with the perception of the presence of three attributes by management. These three attributes are power, legitimacy and urgency (Mitchell et al., 1997).

The definition of power found in Gifford's model can be sourced back to Scott's (2001) regulative pillar, which outlines one of the central forces that drives change within institutional theory. Scott's original definition was later expanded upon by Mitchell et al. to broaden its scope. The definition in Gifford's model is as follows: "the shareholder has power to the extent to which a shareholder has access to coercive, utilitarian and normative means to impose its will in the relationship" (Mitchell et al., 1997:865).

The definition of legitimacy is derived from Suchman, who defines it as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions" (1995:574).

The last attribute, urgency, as defined by Mitchell et al., is the "degree to which stakeholder claims call for immediate attention" (1997:864).

Gifford sub-divided the three main factors into sub-attributes and outlined a number of associated shareholder engagement practices or characteristics relevant to each sub-attribute. In the following table, the sub-attributes and the relating investor engagements are summarized which will be later used for the analysis of our data.

Table 2. Overview of the Model of Shareholder Salience (edited by Jägfeldt and Olivecrona ©)

Attributes	Sub-attributes	Shareholder Engagements/Characteristics
<b>Power</b>	<b>Coercive</b> Power achieved by means of governance	Use of shareholder rights
	<b>Utilitarian</b> Power achieved by rewarding or penalizing through financial means	Use of economic power: divestment or investments
	<b>Normative</b> Power achieved through actions affecting a corporation's reputation	Use of the media and/or public statements/peer pressure
<b>Legitimacy</b>	<b>Individual</b> Perceived credibility of the individuals meeting with the investee corporation	Characteristics including professionalism, experience and relevant knowledge
	<b>Organizational</b> Perceived credibility associated to the organization on an aggregate level towards the investee corporation	Characteristics including the perception of the shareholder as "mainstream", the alignment of shareholder and corporation interests and organizational consistency
	<b>Pragmatic</b> Perceived quality and credibility of the shareholder's argument in relation to the corporation's best interest	Characteristics contributing to the strength of the shareholder's "business case," meaning the validity of the shareholder's argumentation by being backed-up by solid evidence or by providing novel information
	<b>Societal</b> Perceived relevance of the shareholders demand in relation to the view of society	Characteristics enhancing the "societal case." For example, social, political and cultural environment, norms and other principles
<b>Urgency</b>	<b>Time Sensitivity</b> Perceived time sensitivity relating to the claim	Use of deadlines for responses or time-based performance goals
	<b>Criticality</b> Perceived subjective relevance of the shareholder claim in view of the corporation	Characteristics including assertiveness and persistent

## **4. Method**

### **4.1. Methodological Approach**

#### **4.1.1. Abductive Process**

This study follows an abductive research process, meaning that empirical material was collected simultaneously with the formation of the theoretical framework. Abduction is proposed as a way of overcoming the limitations associated with deductive and inductive positions. This approach is based on the pragmatist's perspective, which means that the formation of the theoretical framework that most appropriately fits the phenomenon that we are trying to understand was chosen partially based on the insights we gained as the study evolved. By integrating the selection of the theoretical framework concurrently with empirical data collection, the abductive process permitted the most optimal framework to be created.

#### **4.1.2. Interpretive Study**

The foundation of this thesis hinges on the ontological concept of a socially constructed reality in which this world, as it exists now, is the product of complex and evolving interactions between various individual actors and groups of actors. This world is also one of regulation and authority within institutions, as is demonstrated by the numerous legal and regulatory pressures and processes that steer the actions of said actors. For this reason, over the course of the creation, development, and completion of this thesis, special emphasis was placed on maintaining an interpretative approach to research. An interpretive approach declares that it is not "true reality" that must be accepted as fact, but rather the collective understanding of society that will manifest itself as fact. This is relevant because, in our case, the knowledge of the interviewees, serving as sources of qualitative data, is subject to the interviewees' experiences and worldviews, implying unreliability. However, the totality of their knowledge can be accepted as credible as they are the ones socially constructing the reality in which the knowledge exists (Bell and Bryman, 2019).

#### **4.1.3. Qualitative Method**

As mentioned previously, the data collected is that of a qualitative nature. This type of data is suitable for the study since the analysis of the AP Funds' influence on investee corporations' sustainability agendas is not one that can be described by assigning rigid numeric values. Rather, the qualitative interviews allowed for the expression of the respondents' own opinions, experiences and knowledge on the topic of influence and their roles within it.

## 4.2. Sample

### 4.2.1. Sample Choice

The source of the empirical data utilized in this thesis originates from interviews conducted with ten employees from the First, Second, Third, Fourth AP Fund. The interviewees were chosen based on a snowball sampling technique, in which the samples are chosen based on traits relevant to answering the research question, and then these samples act as leads to discover other individuals to interview (Bell and Bryman, 2019). This was deemed the most appropriate sampling method since the subjects needed to have experience spanning many years to be able to address the questions with consideration to the longitudinal aspects of the study.

The initial selection of the interviewees was limited to those with notable experience in the field of sustainability. In this, sustainability refers to all positions oriented towards ESG-related issues, including corporate governance. This scope was quickly expanded to include those in positions such as management due to their secondhand influence on sustainability. This subsequently led to interviews with other specialists in sustainability, governance and equity.

*Table 3. Overview of Interviewees*

<b>Code Name</b>	<b>Oriented Area of Work</b>
William	Sustainability
Ida	Sustainability
Richard	Sustainability
Alice	Sustainability
Eva	Sustainability
Michael	Management
Henry	Management
Jack	Management
Josh	Management
Monica	Equity

### **4.3. Collection of Empirical Data**

#### **4.3.1. Review of Annual Reports**

To gain an overview and background of the AP Funds' sustainability efforts before conducting the interviews, we obtained secondary data from annual reports from 2008 and 2020. This allowed for a circumstantial understanding of the longitudinal phenomenon we aim to explore as well as set the foundation for more depth in the interviews. Note that this secondary data was strictly complementary to the collection of primary data and was not incorporated into the analysis itself.

#### **4.3.2. Interview Process**

A semi-structured interview template with a set of predetermined starting questions was utilized for all interviews (see Appendix 1 for the interview guide used). This is to say that the questions posed to the interviewees were set at the beginning and evolved over the course of the interviews according to the responses. A semi-structured template provides a platform to guide the interview in the beginning, improves knowledge transmittance by allowing interviewees to fully express their expertise in their chosen manner and permits us to guide the interview following the responses. Due to the ongoing Covid-19 pandemic, all interviews were held over video conference. While this is not ideal due to the lack of nonverbal cues, we did not encounter any miscommunication issues. The interviews varied between 25 to 73 minutes with an average of 56 minutes.

#### **4.3.3. Analysis of Collected Empirics**

All interviews were recorded and transcribed shortly after being completed. Certain patterns began to emerge during the transcription of the interviews but were only finalized after all interviews had been transcribed. This way of observing patterns, such as homogeneity, repetitions, similarities and differences, follows the process of thematic analysis (Bell and Bryman 2019). These themes were thereafter translated into different codes, consisting of first, second and third order constructs, to answer our research question (see Appendix 3).

### **4.6. Discussion of Method and its Implications**

#### **4.6.1. Method Criticism**

In order to self-critique this study and thereby improve its trustworthiness as an academic work, it will be assessed through four distinct lenses: credibility, transferability, dependability and

confirmability. These four lenses are relevant due to the thesis' interpretive stance (Bell and Bryman, 2019).

As with all research that is based on in-depth interviews, there is a potential risk of subjectivity caused by the respondents' own perspective, as well as our interpretation of the responses (Bell and Bryman, 2019). To help mitigate risks to credibility, we were both present during all interviews and our roles for the interviews remained the same for the entirety of the study. One of us was assigned the task of postulating the main questions while the other took notes and filled in with follow-up questions to reduce individual biases. All interviews were recorded and transcribed to avoid misquotation. Ultimately, credibility can be rated as relatively high.

Transferability is the applicability of the specific findings of this thesis to other external contexts and circumstances. This is relevant to discuss because our findings could apply to a larger scope than what was established for this study. As we managed to encompass the vast majority of relevant experts on the topic of influencing sustainability at the AP Funds, we have acquired a large portion of knowledge available in the field, making our findings quite transferable. Additionally, due to the phenomenon of isomorphism, it is likely that our findings are transferable to other institutional investors in Sweden. However, this is less likely in other geographic regions or investor subcategories. We value the transferability of our findings as relatively high.

Throughout the entire study and writing of this thesis, we have maintained transparency in our research design and strategy with our supervisor, other students and participants, which has contributed to an overall high level of dependability. Furthermore, as put forth by Bell and Bryman (2019), a clearly stated research question, explanation of the research design, method, and the selection of respondents and theoretical framework increases the dependability of the study.

As our study takes an interpretive approach, there is a risk for our findings to be biased by our personal beliefs or backgrounds. However, since we have no personal incentives within the field of sustainability, the impact of our own perceptions is assessed to not be a risk, exhibiting a decently high level of confirmability.

#### **4.6.2. Ethical Considerations**

To ensure the fair treatment and representation of all stakeholders involved in this study and to conform to ethical research standards, each interviewee received a GDPR consent form upon agreement to participate. The GDPR consent form outlined the processing procedure of personal data and individual rights. Furthermore, a guide to the interview, including the semi-structured interview template and a disclaimer that follow-up questions not listed may be asked, was available upon request before it was conducted. Additionally, consent to record the interview was gained at the beginning of each interview for transcribing purposes, with transcripts also being available upon request. Finally, as the focus of the study is to understand the AP Funds on an aggregate level, the presentation of the participants reveals only their area of work, not the specific fund for which they work nor their exact title. All of these measures were taken with the objective of protecting our interviewees from ethical risks.



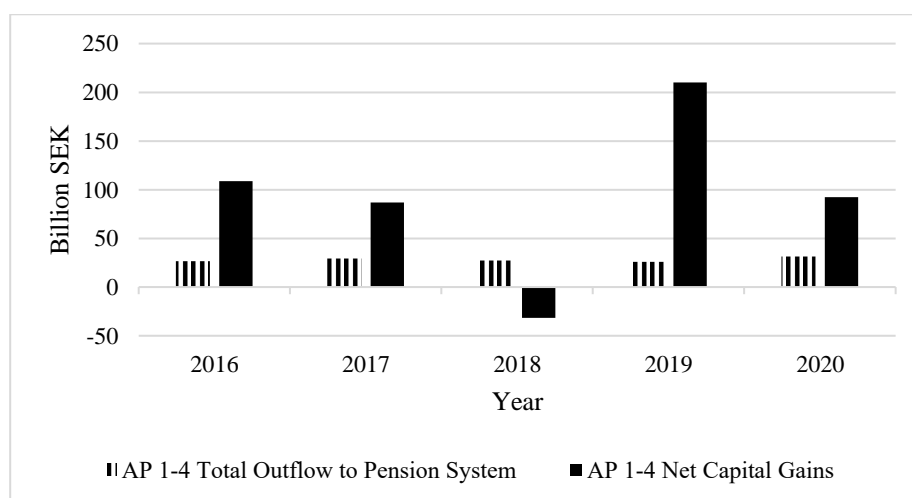
## 5. Empirical Material

### 5.1. The AP Funds' Sustainability Work – Background

The AP Funds, in its current form, came into existence in 2001 during the reformation of the Swedish pension system, where the First, Second, Third, Fourth AP Funds were created to serve as buffer funds for the new approach to delivering pensions. Each year, the Pension Authority uses the current working population's contributions to pay for the current pension distributions to retirees. When there is a discrepancy between the contributions and distributions, the AP Funds take on the surplus or deficit. Since 2009, the AP Funds has operated with a net outflow, meaning that more money has been paid out to pensioners than added by working employees (AP2, 2020). This net outflow, however, is offset by capital gains, which means the funds' total assets are not diminishing as a result of net outflow. The AP Funds invest by employing a long-term investment strategy in which they are responsible and active owners to ensure stable and positive returns.

The AP Funds differ from other shareholders because they are government agencies mandated and evaluated by the Swedish Parliament (Law on General Pension Funds (AP Funds) 2000:192). This means that they exist outside of the influence of government parties, entities and agendas. In 2019, Parliament altered this legislation with it now including requisites on the inclusion of social and environmental considerations in investment decisions. Another difference from other shareholders is that the employees are not driven by commissions or performance-based salaries.

*Figure 4. Capital Gains and Outflows of the AP Funds over Recent Years (AP1-4, 2020)*



The AP Funds integrate sustainability into their investment criteria and within their active ownership. Their sustainability efforts are framed by a number of global principles and guidelines, such as the UN's Global Sustainability Goals. Each Fund reports according to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI), which are two frameworks that helps organizations to monitor and report their environmental impact.

## **5.2. How the AP Funds Exert Influence on their Investee Corporations**

The following section will outline the factors that enable the AP Funds to exert influence over its investees' sustainability agendas using data sourced from the interviews conducted.

### **5.2.1. Reliable Owners**

A prevalent theme that continuously arose during the interviews was that the market perception of the AP Funds is that they are reliable sources of equity financing. One branch of the interview material suggests their image of professionalism and long-term ownership stems from the fact that the AP Funds are government agencies, meaning that the AP Funds are directed by Parliament to be long-term and active owners. They are continuously evaluated by Parliament, which reassures corporations that the AP Funds will stick to their strategy. *"Many companies want us as owners because they know we are 'good money.' We are the public's money, we are loyal as owners and, therefore, pretty good owners to have."* (Michael)

Another view of the reason for the AP Funds' positive reputation was the result of their actions and expertise rather than their relations to Parliament. Eva states, *"I think the perception of the AP Funds is mostly connected to how we act as owners rather than who we represent and that we are government agencies."* Eva's opinion was further backed by that of Josh's, who expressed that, *"My impression is that corporations don't view our purpose and reason for engaging with them to be a result of our assignment from Parliament."*

### **5.2.2. Closeness in Corporate Dialogues**

Many interviewees expressed the opinion that it is easier to influence corporations with which they have close relationships, due to the increased possibilities of communication. We found in the interview material that this could be achieved by geographically close proximity and high levels of availability to one another.

A geographically close proximity to the corporation meant increased possibilities to get to know the company on a more personal level. Richard emphasized this: *“A lunch is incredibly much more productive than three formal meetings. It is the quality of the meetings that is important, not the quantity.”* This suggests that more personable dialogues were greater sources of influence than formal dialogues.

The AP Funds’ structure of assigning one employee as a specialist to follow and monitor the corporations was also an enabling factor to the success of their engagements. It did not only allow for them to get to know the company and monitor their progress, but also contributed to high levels of availability to one another. William brought an interesting viewpoint that high levels of closeness could potentially increase their ability to persuade the corporations to a further extent: *“We want them to feel a bit as if what we suggest is their own idea. We will convince them to a certain extent, but they will refuse it at first. But after a while, they will agree, and start to think it’s their own idea.”*

Furthermore, there was a general consensus amongst the employees that it was simple and straightforward to get in touch with their Swedish corporations. *“I can call any CEO on the Swedish Stock Exchange at any time, and I can guarantee that I will have a meeting within a short time, usually immediately.”* (William)

### **5.2.3. Annual General Meetings**

The general perception by the interviewees was that AGMs provide opportunities to express opinions by using their formal shareholder rights, including voting rights and filing of proposals. However, Josh held a dissenting opinion, saying that AGMs were more of formality than a forum to accomplish things. Jack implied a similar opinion regarding the filing of proposals: *“to put forth proposals at AGMs is usually not meaningful unless you do a fair amount of preparatory work together with other owners.”*

### **5.2.4. Ownership Size and Coalitions**

While a sizable ownership stake in isolation does not guarantee the ability to influence, it is necessary in order to be influential in the first place. *“Small shareholders’ greatest challenge is receiving attention due to the limited resources of corporations.”* (Josh) When the AP Funds

are more prominent investors, they gain significantly more privileges in the investee company, such as higher frequency of dialogues and requests to join Nomination Committees.

Furthermore, the need for coalitions is widely deemed, among the interviewees, to strengthen investors' abilities to influence. *"If a majority of the IOs agree then corporations tend to be very compliant."* (Alice) Together with ownership stake size, the AP Funds have a substantial ability to influence investees.

### **5.2.5. The Swedish Governance Code**

The interview material highlighted the Swedish Governance Code as a valuable tool for exerting influence. In Sweden, a Nomination Committee consisting of shareholders decides the board of directors, unlike in many other countries where the board of directors determines the subsequent one. The members of these committees have equal voting rights regardless of the size of their ownership stake. Another part of the code is the "minority protection" which prevents the majority shareholders from abusing their position against minority shareholders (Kollegiet för Svensk Bolagsstyrning, 2016).

#### **5.2.5.1. Nomination Committees**

A general consensus was that being part of a Nomination Committee enables more natural and frequent conversations with the investees. *"By joining a Nomination Committee it's much more natural to have a continuous dialogue with the corporation."* (Michael) Though, Josh thought it does not significantly affect how active they are as owners: *"you are involved because you are a major shareholder, not because you happen to sit on the Nomination Committee."*

#### **5.2.5.2. Minority Protection**

The protection of minority interests is seen by our interview subjects as an important aspect that allows for increased influence. This is an important way to give the smaller shareholder disproportionate power to influence proposal in shareholder meetings. *"The Swedish minority protection leads to possibilities for smaller shareholders to vote down certain proposals and forces managers to listen to all owners."* (Richard)

### 5.3. Differences within the AP Funds' Sustainability Work Between 2008-2021

Several differences within the sustainability work have been observed in the interview material and will be summarized in the following section.

Since 2008, many new regulations, auditing frameworks and international enactments regarding sustainability have been introduced, which the interviewees suggest have opened up new possibilities for the AP Funds to influence corporations. This includes the Swedish Governance Code, which applied to all listed corporations on the Swedish Exchange in 2008, international enactments such as the SDGs in 2015 and extensive reporting frameworks like the TCFD in 2015. Additionally, the interviewees speak to the perception that since these implementations, the time pressures on companies to deliver results in their sustainability work has increased. *“When the SDGs and the Paris Agreement were introduced, firms started to realize that 2030 was within planning distance.”* (Ida) Several employees had also recognized a change in attitude towards sustainability issues within the management teams of the corporations. *“The CEOs of corporations in 2008 were all very supportive to what their own generation thought was appropriate business conduct. [...] In the recent years, we have seen a large turnover of staff which have made the leadership teams become much more acquainted with sustainability issues.”* (Michael)

The legislation by which the AP Funds are ultimately governed faced a revision in 2019 that introduced stricter requirements on their responsible investing strategies. However, all respondents agreed that the revision of the legislation in 2019 was just a reformulation of what they already did. *“Regarding the 2019 revision of the legislation, our perception is that we were already working this way long before the revision was made.”* (Josh)

Several of the sustainability-oriented employees agreed that they have gained an increased confidence to vote against corporations' proposals that do not align with sustainability goals at the AGMs. However, Jack, a management-oriented employee, believed that this trend was not as clear as many others of the other respondents believed.

Even though many benefits from collaborating with other investors were put forth, several interviewees also outlined disadvantages that have arisen over time. *“Coalitions were really*

*important when we started promoting sustainability. Today, PRI is more of a burden than an asset for us, for the simple reason of the amount of work they make us do [...]*” (William)

Even though the interview material suggests that the AP Funds have been at the forefront of promoting sustainability work, these sustainability efforts have not been integrated in their mission until around 5 years ago. *“In 2006, there was no sustainability work. The work that existed around sustainability issues was solely corporate governance and there was no integration of sustainability in our own administration.”* (William) Furthermore, the AP Funds internal sustainability work has also become more active and focused. *“Today, we are more structured and more active owners. In the beginning, our sustainability work was very scattered [...] Today, we have formulated four focus areas when it comes to sustainability, which enables us to put more resources on the initiatives we decide to sign.”* (Alice)

Interviewees expressed that sustainability has become more comprehensive to both their investees and to their own employees. The combination of an advancement in the employees’ sustainability expertise together with better terminology revolving around the topic has allowed the AP Funds to conduct more efficient corporate dialogues. Eva suggests that the observed potentiation in corporate dialogues is mainly due to a change in language, but not as much in the actual content of the conversations. *“We have always had sustainability conversations, but just as the companies have become more professional in how to name these issues, so have we. I would say that the terminology has evolved but not really the content of the conversations.”* Furthermore, it was suggested in the interview material that the AP Funds draw upon more norm-based arguments today than historically.

## **6. Analysis**

This section analyzes the empirical data collected to answer the research question of how the AP Funds exert influence on their investees' sustainability work and how this has evolved over time. This is achieved by using a model of shareholder salience together with the idea of institutional entrepreneurship.

### **6.1. Power-Oriented Factors**

A crucial part of creating shareholder salience is the expression or the perception of power by the shareholder, which in this case is, the AP Funds. The characteristics and practices that the AP Funds use to create power and how the use of these have evolved over time are explained below.

#### **6.1.1. Use of Shareholder Rights**

The use of shareholder rights, such as filing proposals for AGMs or voting against corporations' proposals on sustainability issues, was not as common in 2008 as it is today. Promoting somewhat of an uncommon societal objective created boundaries to how obstinate they could be in their requests. Additionally, being less experienced within the field of sustainability caused insufficient dialogues with the corporations in 2008.

Today, the awareness of these issues has increased which has added robustness to the AP Funds' claims, causing a greater confidence in the use of their voting rights. Yet, the boost in exercising shareholder rights from 2008 to today has not been as substantial as one would expect. This can be due to the improvements in dialogues within the same timeframe. As a result of more experience and more open relationships between the AP Funds and the investee corporations, corporate dialogues have increased in frequency and become more efficient. More frequent dialogues allow for disagreements to be brought up at an early stage, which enables the co-creation of final proposals presented during the AGMs. Therefore, there is a distinct lack of "surprises" that arise during these meetings since each party knows what to expect. This has made the AP Fund less likely to vote against corporations at AGMs.

As the AP Funds take more advantage of their formal shareholder rights today, they display an increase in coercive power. Overall, there is strong support for the fact that engagement efforts

can be assisted by the use of shareholder rights. Even though the use of their voting rights has increased, they continue to prefer an extensive dialogue to a simple vote.

*Table 4. Use of Formal Shareholder Rights Over Time (Scale: 1-5)*

Year	2008	2021
Use of Voting Rights	★★	★★★★
Filing of Shareholder Resolutions	★	★
Frequency of Corporate Dialogues	★★	★★★★★

### **6.1.2. Governing Mechanisms**

Since 2008, a more supportive regulative context for raising opinions on ESG-issues has evolved, including the introduction of Nomination Committees and the expansion of reporting frameworks, making the number of governing mechanisms on corporations significantly higher.

Since the introduction of Nomination Committees in 2008, the size of the shareholding is less important than it was before in terms of the ability to influence corporations because each member has the same decision-making value. Additionally, the extent to which corporations commit to auditing frameworks and other sustainability initiatives that hold firms accountable have significantly increased during the studied timeframe. The AP Funds are now benefitting from this by being able to monitor corporations easier, resulting in an increase in their coercive power.

## **6.2. Legitimacy-Oriented Factors**

The perception of being a legitimate actor, both on an individual and organizational level, is another crucial part for creating shareholder salience. In this, we have identified five practices/characteristics that contribute to the investee corporations' perception of the AP Funds as a legitimate actor.

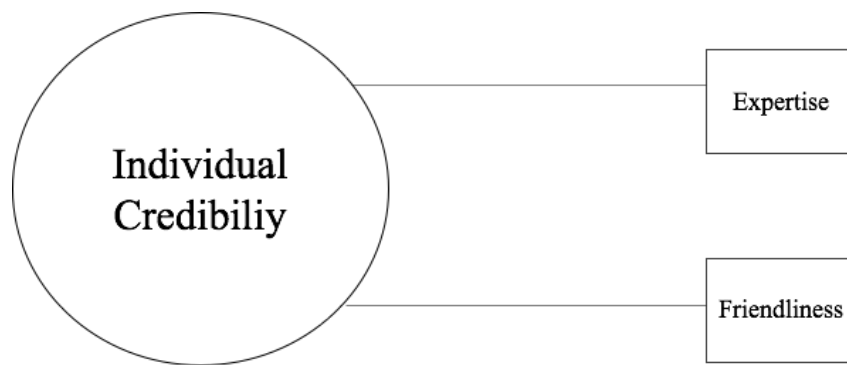
### **6.2.1. Credibility of the Individuals**

High degrees of related expertise and closeness in corporate dialogues contributes to legitimacy on an individual level. All of the AP Funds' employees that work with the corporations have



thorough professional backgrounds within fund management and many also in the area of sustainability. The interconnectedness with the investee corporations enables them to develop trust and personal relationships and gives them numerous platforms to initiate dialogues.

*Figure 5. Factors Contributing the Individual Credibility*



### **6.2.2. Strong Business Case**

The AP Funds, despite their unconventional goals by early 2000s standards, were still able to build shareholder salience by offering a compelling business case to investee corporations. This business case, the extent to which arguments put forth are considered novel and rewarding for the corporation, contributed to the AP Funds pragmatic legitimacy. For corporations, the AP Funds were a valuable source of knowledge, resources, and held a key position in the market. This aligns with the idea of the AP Funds being institutional entrepreneurs.

The AP Funds had three relevant resources at their disposal: capital, guidance from Parliament, and area expertise. The combination of these three resources allows the AP Funds to pressure corporations and establish new trends while maintaining a professional and legitimate image in the eyes of the corporations. The AP Funds decide on the strategic allocation of these resources depending on their interests. Highly valued interests include long-term financial returns and excelling in evaluations by Parliament, which are perceived to be accomplished by the implementation of sustainability. The combination of sufficient resource allocation and motivation by highly valued interests results in the actualization of new institutions (Dimaggio, 1988). In this case, the AP Funds are establishing new norms and principles off the back of their sustainability work.

The source of the AP Funds desire to have significant impact on sustainability via financial markets stems back to their employees; many of which have extensive backgrounds in the field and a portion of them working on sustainability projects for most of their careers. The AP Funds' employees view the benefits of sustainable investing as two-fold: the long-term financial impact and the positive societal and environmental impact it has to capitalist markets.

To corporations, the AP Funds are appealing investors because they are able to present a strong business case based on their resources and interests. By onboarding the AP Funds, corporations receive not only capital, but also leadership and encouragement in the achieving sustainability goals, a pragmatically legitimate actor, government professionalism, and an institutional entrepreneur.

### **6.2.3. Strong Societal Case**

The societal case refers to the support for an issue within society. The gravity of that support is reflected in the strength of norms and principles of said society. For example, the amount of support in minimizing the carbon footprint of corporations is reflected in how aggressively the public, as a whole, pushes for sustainability.

From 2008-2021, society's perspective on sustainability has converged with the objective that the AP Funds have sought to promote for a long time. This has led to a significant increase in both their pragmatic and societal legitimacy.

The improved societal case does not only enhance their societal legitimacy but also affects their pragmatic legitimacy. However, the implications for their pragmatic legitimacy are not as clear. On the one hand, the AP Funds gain more pragmatic legitimacy today since their claims are more agreed upon by the general public and therefore also in corporations. On the other hand, the AP Funds' ideas on sustainability have become less novel which could decrease their pragmatic legitimacy because they are no longer seen as new-knowledge generators.

However, the fact that the AP Funds have gained a stronger societal case and are not as "novel" in their claims anymore does not revoke their position as institutional entrepreneurs. The societal case is closely correlated with institutions, which would imply that a stronger societal case is the result of the creation of new institutions. The task of an institutional entrepreneur is

also to maintain newly made institutions, evidenced by the continuous improvements seen over the course of the AP Funds' sustainability work.

#### **6.2.4. Coalition Building**

The AP Funds added to their organizational legitimacy when their claims were supported by more shareholders through coalitions. Coalitions with umbrella organizations played an important role in the initial phase of the AP Funds sustainability engagement, as it gave them a good foundation to build upon. However, parts of the interview material suggest that the cons have outweighed the pros today. This implies that coalitions are no longer important for them to gain organizational legitimacy, which might be due to the increased organizational legitimacy stemming from improvements in their societal case.

#### **6.2.5. Values of Managers**

Whether the management teams of the investees are sustainability conscious or not has implications for the AP Funds' organizational, pragmatic and societal legitimacy. The Swedish organizational environment that has evolved during the timeframe to become much more open-minded towards ESG-issues. Several interviewees agree that the success of an engagement is not very dependent on the values of the managers at the corporation – probably due to the fact that they rarely encounter managers today that see no value in sustainable value creation.

### **6.3. Urgency-Oriented Factors**

The last attribute that is considered to be valuable in creating shareholder salience is the perception of urgency.

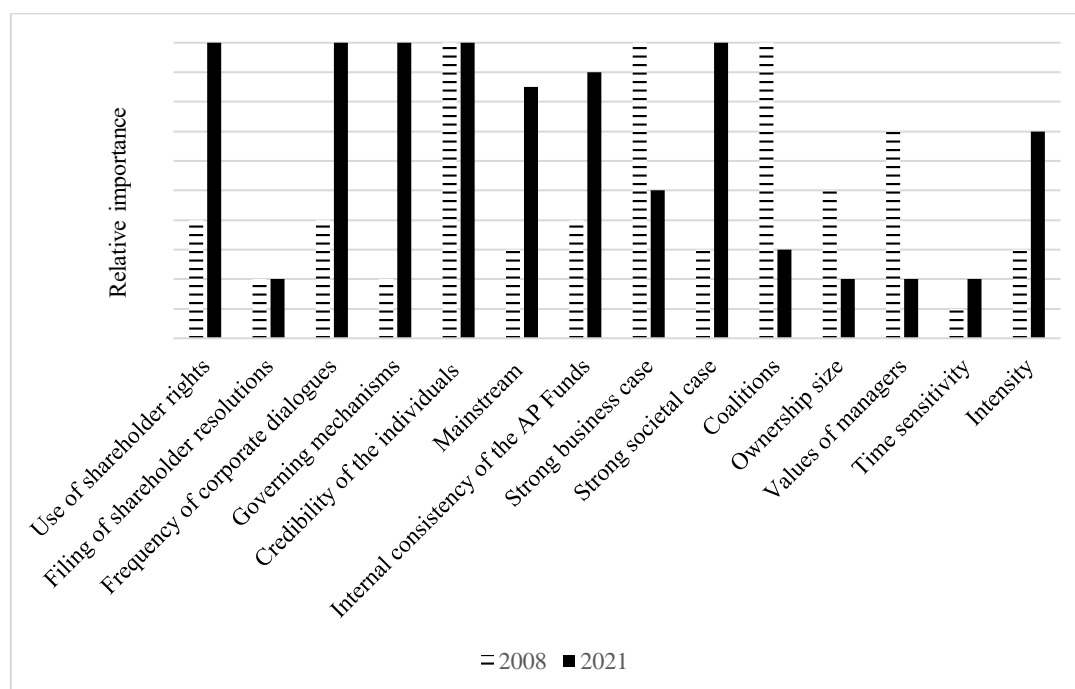
#### **6.3.1. Time Sensitivity**

Time sensitivity is connected to the proposition that deadlines and time pressure tend to focus the minds of managers. However, since the AP Funds are long-term investors, they tend not to utilize time pressure to create shareholder salience. They prefer to use arguments based on how to improve financial performance in the long-term rather than in the short-term. Additionally, to incorporate sustainability into a corporation can be recognized as a time-demanding process, making time an even less important factor to create successful engagements.

### 6.3.2. Intensity

Intensity reflects the criticality of an engagement. As international enactments, such as Agenda 2030 and the Paris Agreement, are approaching their due dates, corporations feel a greater necessity to take on more responsibility today than what they did in 2008. All of this has contributed to a growth in the criticality connected to the demands of the AP Funds. All of the Funds' engagements continue over multiple years, exhibiting a great degree of persistence. This includes, but is not limited to, the dedication of time and human resources to the dialogues, which has increased significantly since 2008.

*Figure 6. Summary of Changes in the Levels of Relative Importance of Characteristics/Practices*



## 6. Discussion and Conclusion

### 6.1. Discussion

The need for sustainability has become evident in recent years. Therefore, it has become important for those in the business world to figure out how to solve the issues inherent to conducting profit-maximizing business. Corporations are key players, and the AP Funds hold a unique ability to influence these corporations, which led to the development of our research project.

In the current research field, we found a need for further investigation on the topic of corporate dialogues and their impacts on the success of an engagement, especially within countries outside of the Anglo-American scope. To approach this research gap, we established a multi-faceted theoretical framework to serve as a medium for our own exploration. Specifically, we wanted to analyze how the AP Funds have managed to be innovators and early adopters in promoting sustainability. As part of this framework, institutional theory highlights the importance of social contexts for the development of organizational change. The shareholder salience framework outlines characteristics and practices for success in an engagement. With the help of these tools, we were able to process the collected data to concoct a valid and evidence-based answer to the proposed research question.

### 6.2. Answer to the Research Question

*How do the AP Funds influence the sustainability agendas of corporations in which they invest?*

The analysis found three major characteristics and practices of the AP Funds that together serve as an answer to the thesis question:

1. Constant availability to the corporations
2. Consistent messaging through effective resource and talent allocation
3. Exploiting opportunities found in the external environment, such as participating in Nomination Committees, engagements with other investors, attending AGMs etc.

### ***How have these dialogues and the methods of influence changed between 2008-2021?***

We observed the several key evolutions in the corporate dialogues as well as in their influence, which are listed below.

Changes in corporate dialogues:

1. Higher frequency
2. More efficient via better terminology around sustainability and greater comprehensibility for both parties
3. More casual via a decrease in formality and higher sociability

Changes in the methods of influence:

1. More obstinate and confident in their claims today (increase in coercive power)
2. Less need for a strong “business case” as they have gained a stronger “societal case”
3. Increase in the level of monitoring

Over the studied timeframe, we found that the need to be a pragmatically legitimate actor was greater in 2008, whereas today power-oriented practices have become more utilized.

### **6.3. Contribution and Suggestions for Further Research**

We have added to the research body of IOs outside of Anglo-American countries, specifically in Sweden. We have also brought to light information on a particularly important but publicly hidden aspect of the relationship between corporations and their active owners: corporate dialogues. While we have answered some questions about this topic, more have also arisen. For example, further research is needed to view these interactions from the perspectives of the corporations and further the exploration of institutional entrepreneurs in the Swedish financial market.

### **6.4. Limitations**

As with any other research study, this thesis is subject to limitations. Firstly, since the temporal scope of this study is from 2008 to 2021, issues regarding the interviewees’ recollection of historical data and trends could have arisen and therefore diminished their credibility. Secondly, the study took an interpretive approach, which inherently means that the

interpretation of the results is up to our discretion as researchers, which has the potential to be biased. Finally, the study was conducted in 2021 and thus subject to the current beliefs in the socioeconomic and political landscape; corporate dialogues might change drastically in the future and obsolete the insights gained.

## **6.5. Conclusion**

It is found that the AP Funds have acted as institutional entrepreneurs in the Swedish financial and corporate spheres through their excellence in corporate dialogues. The AP Funds position themselves in a strategic manner to optimize the engagements that they have with their investees and ultimately apply pressure to them to ensure conformity to sustainability objectives. By initiating casual corporate dialogues, the AP Funds were able to overcome the challenges associated with promoting a somewhat non-mainstream objective. During the timeframe, they have slowly become more obstinate in their claims and exert more coercive power, while still remaining perceived as pragmatically legitimate actors and avoiding the perception of being authoritarian – all achieved by closeness in corporate dialogues.

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# Appendix

## Appendix 1. Interview Guide (Translated into English)

### Background about the Respondents:

1. Tell me about your educational and professional background.
2. For how long have you been working at APX?
3. Can you describe your role at APX?
4. What is sustainability to you?
5. What is your view of socially responsible investing, and why do you think APX uses this investment strategy?

### About the Corporate Dialogues around Sustainability

1. How has the sustainability work changed at APX since 2008 compared to how it is today?
2. How did the revision of the legislation in 2019 change your sustainability work?
3. What do the corporate dialogues look like?
4. How active have you been in these dialogues?
5. How frequent are the corporate dialogues? Has the frequency of the corporate dialogues increased over the time period of 2008 to today?
6. How have the corporations' receptibility of your request changed over the given time period?
7. How have your demands on companies changed over time? More strict/less strict demands?
8. Do you feel that there is a problem with setting such high sustainability standards for your portfolio companies? If so, how is it demonstrated?
9. How is your impact on portfolio companies manifested?
  - a. Is it a direct impact (i.e. what you say has a major impact on the operational processes of the portfolio company) or rather an indirect impact (where what you ask for lays the groundwork for you to create new standards for the companies you invest in)?
10. What do you think are the factors that allow you to have the greatest impact on the companies?
11. What are your methods to influence the sustainability agendas of your portfolio companies?

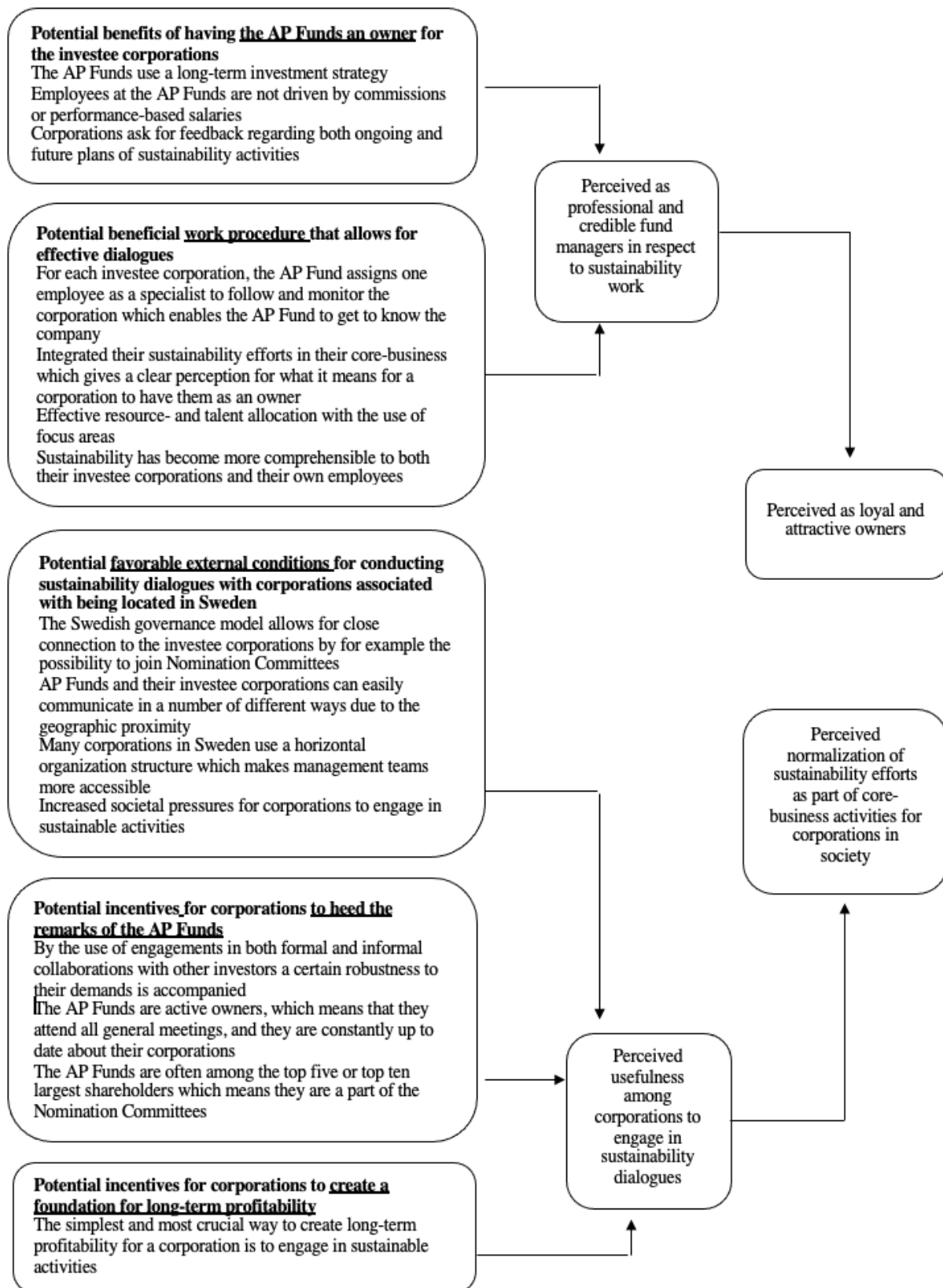
12. How do you use your formal shareholder rights (voting rights and shareholder proposals)?
  - a. How often do you make proposals at general meetings?
  - b. Do you often vote against company proposals? Has this changed over the time period of 2008-today?
13. How does the corporation's management's values affect your chances of influencing the said corporation to act more responsibly?
  - a. What happens if management has a poor attitude towards sustainability, does this make your work impossible?
14. Does the fact that you are acting as a government agency play a role in your ability to influence companies?
  - a. In the context of a changing political environment, have you gained more possibilities in influencing companies?
15. What type of arguments do you use to support your claims? (ex. norm-based, time-pressure based or financial arguments etc.)
16. What tone of communication do you use with your portfolio companies?
  - a. Do you make demands or rather requests?
  - b. Are there times when you dare to speak up if necessary? Has this changed over the given time period?
17. How important are collaborations with other investors in order to influence your investee corporations?
  - a. Has this importance remained the same over the given time period or have the dynamics changed?
18. What is the effect of being a member of the Nomination Committee on your influence over the company?
19. How important is it to be geographically close to influence the portfolio companies?

## Appendix 2. Interview information

Number	Code name	Length of Interviews in Minutes	Date	Location
1	William	73:00	2021-02-23	Video conference
2	Ida	64:00	2021-02-26	Video conference
3	Richard	56:00	2021-03-12	Video conference
4	Alice	62:00	2021-03-16	Video conference
5	Michael	67:00	2021-03-25	Video conference
6	Eva	67:00	2021-03-25	Video conference
7	Monica	67:00	2021-03-25	Video conference
8	Henry	60:00	2021-04-16	Video conference
9	Jack	25.47	2021-04-26	Video conference
10	Josh	37.21	2021-04-26	Video conference
Minimum		25.47		
Maximum		73:00		
Average		55.46		
Median		61:00		
Note: Interviews 5, 6 and 7 were held simultaneously				



### Appendix 3. Coding (First, Second and Third Order Constructs)



#### Appendix 4. Relative Change in the Factors affecting the AP Funds' Shareholder Salience between 2008-2021

	Power enhancing			Legitimacy enhancing			Urgency enhancing		
	Coercive	Utilitarian	Normative	Individual	Organisational	Pragmatic	Social	Time	Criticality
<b><u>Power-oriented</u></b>									
Use of shareholder rights	+	+	+		-			+	+
AP Funds 2008	★								
AP Funds 2021	★★★								★★
Divestment		+	+					+	+
AP Funds 2008									
AP Funds 2021									
Actions that affect reputation			+		-			+	+
AP Funds 2008									
AP Funds 2021									
Governing mechanisms	+		+		+				
AP Funds 2008	★				★				
AP Funds 2021	★★★				★★				
<b><u>Legitimacy-oriented</u></b>									
Credibility of the individuals				+	+	+	+		
AP Funds 2008				★★★★	★★★★	★	★		
AP Funds 2021				★★★★	★★★★	★★			
Perceived as mainstream, interests aligned, internally consistent			+	+	+				
AP Funds 2008				★	★				
AP Funds 2021				★★	★★				
Strong business case			+	+	+	+			
AP Funds 2008				★★★★	★★★★	★★★★			
AP Funds 2021									
Strong societal case			+			+	+		
AP Funds 2008						★			
AP Funds 2021			★			★	★★★★		

	Power enhancing			Legitimacy enhancing			Urgency enhancing		
	Coercive	Utilitarian	Normative	Individual	Organisational	Pragmatic	Social	Time	Criticality
<b>Political/policy context</b>	+	+	+		+	+	+		
AP Funds 2008									
AP Funds 2021	★★					★★	★★		
<b><u>Urgency oriented</u></b>									
<b>Time sensitivity</b>								+	
AP Funds 2008									
AP Funds 2021								★	
<b>Intensity</b>									
AP Funds 2008									★
AP Funds 2021									★★
<b><u>Other influences</u></b>									
<b>Ownership size</b>	+	+	+		+				
AP Funds 2008					★★				
AP Funds 2021									
<b>Coalition building</b>	+	+	+		+				+
AP Funds 2008					★★★				★
AP Funds 2021					★				★★
<b>Values of managers</b>					+	+			
AP Funds 2008					★	★★			
AP Funds 2021									

★ Indicates relevance between AP Funds’ practice or characteristic and sub-attribute

+/- Indicates Gifford’s (2010) *proposed* existence of attributes and the expected impact on influence (positive or negative).