INVESTMENT DECISIONS AND ESG

FUND MANAGERS' PERCEPTIONS OF ESG INFORMATION WHEN MAKING INVESTMENT DECISIONS

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Abstract:

ESG issues play an increasingly important role in today's societies. As a non-financial component, its place in investment decision-making may be difficult to grasp and thereby applied differently among investors. Combined with new emerging regulation, the questions concerning ESG are in a field of constant development. The aim of this study is to investigate how Swedish institutional investors use ESG information in the investment process and relate it to the new emerging European taxonomy. The study was conducted as a case study, including semi-structured interviews with fund managers from Swedish investment institutions. From our study we find that the fund managers have some common considerations in their usage of ESG information. However, within the boundaries of their respective investment institutions, the managers have a high level of autonomy when deciding what a sustainable investment is, and how they work with the information accessible to them.

Keywords:

ESG, investment decisions, fund management, taxonomy

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1. Introduction

The introduction begins with an overall background of the research phenomena and continues with a problem formulation section stating the concern with previous research. Thereafter, the aim of the research as well as the research question are presented. The chapter concludes with a disclosure of our contributions.

1.1. Background

The interest concerning environmental, social, and corporate governance (ESG) issues has vastly accelerated in the world over the last couple of years. The connection between ESG and the financial performance of firms is an increasingly attractive field of study. The display of positive ESG performance on corporate financial performance has in many cases shown a positive or non-negative relationship (Friede et al., 2015). Further, similar or synonym to Corporate Social Responsibility (CSR) (Kell, 2014), this kind of non-financial disclosure by companies has shown to decrease the cost of equity capital (Dhaliwal et al., 2011; El Ghoul et al., 2011; Ng and Rezaee, 2015) and increase firm value (Fatemi et al., 2018). Indeed, the research concerning ESG integration in businesses is not solely relevant for external stakeholders. Although the connection between ESG and financial performance is receiving more attention, it should not be left out that the perhaps largest contributor to the increased focus on ESG in the business community is the vast development of actions to address climate change. The incorporation of ESG in companies is receiving more attention on a global scale with increasing pressures from stakeholders seeking more transparency, led by governments and institutions addressing climate change (Coppola et al., 2019). The inclusion of a sustainability perspective in businesses is thus not merely relevant for companies seeking to improve financials but could also be a future prerequisite to continue with business as usual and is therefore highly relevant to explore further in a financial context.

1.2. Problem formulation

We stand in a time with major climate changes and an urgent need for green capital markets. New societal changes attempting to reduce the negative impacts on climate and societies makes the question of ESG relevant to frequently explore. There is extensive

quantitative research regarding how ESG issues affect the financial performance of companies (Friede et al., 2015). What lacks in the existing research is a broader investigation of how ESG information is used in practice in investment institutions by fund managers without ESG profiles. Existing literature addressing this question has to the best of our knowledge only been done through large global surveys (Amel- Zadeh and Serafeim, 2018; Eccles et.al., 2017). In depth qualitative research is missing in the literature that addresses how traditional Investment institutions account for ESG information. In this study, we attempt to address this missing element of ESG research.

It is important to study this question because the thoughts and perceptions of the investors that actually use the ESG information play an important part in the development of ESG in mainstream business practices. The thoughts and perceptions of investors cannot be captured through quantitative studies or surveys to the same extent as in one-on-one interviews. It is especially relevant to do this research now, as the EU commission has implemented a taxonomy regulation to be imposed starting 1st January 2022 (Government offices of Sweden). Hence, all members of the European Union that participate in financial markets will have to take the taxonomy into account which makes it extremely relevant to investigate how investors perceive this new regulation in regards to their work.

1.3. Aim and research question

In this study, the emphasis is on institutional investors and more precisely, fund managers, which are assumed to represent the institutional investor perspective. Using interviews conducted with Swedish fund managers, this study explores the role of ESG information when institutional investors make investment decisions. Furthermore, the aim is to investigate the underlying reasons behind the usage of such non-financial information and relate these questions to the new emerging EU taxonomy facing European businesses. The purpose of this study is to further explore the role of ESG in the investment decision-making process since the sustainability aspect of businesses is a field in constant and fast-moving development. We focus solely on Swedish fund managers that do not have any specific ESG related backgrounds to avoid bias. The research question we intend to study

is formulated as follows: *How do institutional investors use ESG information when making investment decisions?*

1.4. Contributions

Although the sustainability topic is quite broadly studied in finance and accounting, and the specific questions we intend to answer have been studied in a way, we make contributions to the literature in the following ways: firstly, by investigating the question of how investors use ESG information through a different approach than in other studies (Amel-Zadeh and Serafeim, 2018; Eccles et.al., 2017). From our study we both find resemblances and divergent results compared to these studies. Our conclusion and contribution to existing literature regarding this specific question is that we find the ESG information to be used in a much more subjective, or personal, way than found in other studies. We further find that some ESG strategies are indeed similar as to what previous literature finds, such as negative screening. In an attempt to answer the research question above, our study further makes a contribution to the literature by simultaneously exploring how the new EU taxonomy is perceived to affect the ESG work of Institutional Investors. This has to the best of our knowledge not been done in other studies.

2. Theoretical development

In this chapter, the theoretical development is presented. Section 2.1 starts with a background that defines and explains the intuition behind the phrases ESG, Institutional investors, and the perceived impact of the European Union taxonomy. Previous research is discussed in section 2.2 and the chapter ends with a presentation of the theoretical framework in section 2.3.

2.1. Introduction to ESG and fund management

2.1.1. Definition of ESG

Although an exact definition of ESG is missing in the literature, MSCI ESG Research defines ESG as "*the consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process*". In this thesis, the definition will stem from the MSCI definition but also include the wider established concepts of Corporate Social Responsibility (CSR) and Social, Ethical and Environmental (SEE) issues. The definition will also be subject to potential change as we gather the empirics of the study. There are a couple of reasons these concepts are included in the definition. The most significant is to get access to a more extensive literature base of previous studies. As CSR and SEE are older concepts that gradually have been replaced by ESG, previous studies have primarily studied CSR in the investment process. The other reason is that ESG is considered a wider and more comprehensive concept, primarily used by investment institutions today. Although CSR still is a relevant and prevailing concept, most institutions have adapted the ESG concept in their business practice. A third reason why the definition is left quite dynamic is because the investors interviewed in this thesis may have their own definitions and opinions of ESG and what ESG and sustainability information consists of. Therefore, should the investors include information that may not be included in a general definition, it will still be included in the empirics and discussion of this study. This issue is further discussed in the theoretical development section.

2.1.2. Institutional Investors – Fund Managers

As previously mentioned, the focus in this study is on institutional investors. Since most fund managers are employed by an institution (all managers in our study), they are considered as representatives for the perspective of the institutions and thereby regarded as institutional investors. Collectively, institutional investors hold more than 40% of global market capitalization (De La Cruz et al., 2019) and are considered to be a highly influential market participant (Aguilar, 2013). The work of fund managers is largely affected by the kind of fund under management and whether it is actively or passively managed. In this thesis, all the fund managers interviewed use an active management style since that implies a choice of what investments to buy and sell.

The institutional investors' decision-making process regarding the selection of stocks is primarily based on investment research. In advance of including stocks in the portfolios, fund managers are using a combination of technical and fundamental performance indicators with the aim of assessing the stock's profitability and volatility (Boyte-White, 2020). Technical analysis is a tool used for short-term forecasting asset returns by examining movements in prices. The fundamental analysis is a long-term evaluation of assets' intrinsic value and it is examining the potential external aspects that could affect the long-term prices (Curtis, 2021). In large, it is common to identify an investment strategy. The investment strategy is dependent on the goals of the fund, the level of volatility, and the demand from shareholders. One of the most commonly used investment strategies is value investing. The investment strategy aims to identify stocks that are underestimated by the stock market due to the market responding to financial news and therefore being traded for a value less than the book value (Hayes, 2021). The responsibilities of fund managers can extend broadly. Besides executing the predefined strategy of the fund, it includes overseeing the investment team (generally for larger funds) as well as meeting with new and existing clients (Chen, 2021).

2.1.3. The changing landscape of sustainability in businesses – EU Taxonomy

The European Commission has proposed a taxonomy regarding sustainable investments. The purpose of the taxonomy is to develop a common framework for all financial market participants within the European Union regarding questions of how to classify and

evaluate companies' sustainability efforts. The underlying reason for the development of the taxonomy is for the EU to facilitate investments that align with the Paris Agreement and the global 1.5-degree target. Fundamentally, the taxonomy should be used as a tool to determine which investments can be considered "green". Further, the taxonomy provides the opportunity to identify and compare investments that are necessary to reach a sustainable economy (Swedish Department of Finance, 2020).

The adoption of the taxonomy has, in particular, implications for institutional market participants within the EU. Providers of financial products, such as fund companies, that market financial products as sustainable or environmentally sound, must disclose how the taxonomy is accounted for in their investments. The implementation of the taxonomy can in a sense be the first step towards standardisation of sustainability (ESG) issues. To be considered a green investment, an activity must substantially contribute to one of the six climate targets set by the European Commission. This is further defined as, depending on activity, at least reaching the minimum limit determined for that activity. Moreover, the implementation of the taxonomy will put less pressure on individual companies in the process of determining what can be considered sustainable as well as not sustainable. This is beneficial since any individual interpretations will not be necessary to the same extent as before. Another positive effect of the taxonomy is that it will be harder for companies that today deliberately are misleading stakeholders to continue with that activity, e.g. greenwashing. The inclusion of a taxonomy perspective in the investment process will have great implications for many Swedish Institutional Investors. As many of the "traditional" Swedish funds account for ESG issues in different ways, they will be subject to disclosing taxonomy-related information and it is, therefore, an important and relevant issue that investors need to deal with.

2.2. Previous research

The prior literature addressing the role of ESG in the investment process is somewhat ambiguous with regards to *if, how and why* it is used in the investment process. These questions can also be distinguished as somewhat separate fields of research within the ESG area. Solomon and Solomon (2006) find that public Social, Ethical and Environmental disclosure (SEE) is not sufficient enough to be used in the investment

process and also that the implications of this are that the development of private SEE disclosure rises which they find to be decision-useful in the investment process. A similar study made by Berthelot et al. (2012) investigates whether investors value the disclosure of sustainability reports and find that they do. In essence, these studies both explore if sustainability-related disclosure is material to investors although not explicitly researching the same question. Campbell and Slack (2011) explore the materiality of environmental disclosures from a somewhat different perspective. By interviewing sell-side bank analysts, they find, as opposed to the previous two studies, that the analysts do not consider sustainability disclosure in their investment recommendation process, hence the ambiguity in the research.

2.2.1. ESG Information – a tool for value creation and risk mitigation

The other question, addressed by the research we have found, which focuses on why and how the sustainability (ESG) information is used by investors, have found some common ground as they all find that ESG information can be used as a tool for risk mitigation (Amel-Zadeh and Serafeim, 2018; Przychodzen et al., 2016; van Duuren et al., 2015). However, there are some colliding conclusions regarding what the most substantial reason is for including ESG information as Amel-Zadeh and Serafeim (2018) find that it is because of additional value creation whereas the other authors find it to be because of risk mitigation.

Since the development of sustainability awareness and inclusion has seen such a rapid increase during a short period of time, it should be noted that one reason for the differences in findings can stem from the time difference of the studies. Solomon and Solomon (2006) find that public SEE information is not comprehensive enough to be integrated into the decision-making process and develops their research with a focus on how private SEE information is used. Later research does not seem to focus on a distinction between private and public information which perhaps could be explained by the improved public information disclosed by companies in recent years. As the interviewees indicate: "*companies were starting to initiate dialogue with their core investors in order to discover what SEE information they wanted to be disclosed",* which supports the idea that public information has improved since the time of their study.

By interviewing members of the institutional investment community in the United Kingdom Solomon and Solomon (2006) find that the process of private SEE disclosure between institutional investors and their investee companies is linked to a perceived market failure in the area of public SEE disclosure. The increased private disclosure can be seen to compensate for the market's failure to provide qualitative public SEE information to investment institutions. Another insight from their study is that institutional investors encourage more comprehensive public SEE disclosure by their investee companies and display an increased demand for SEE information. Finally, they find that it is a collective view of institutional investors that SEE information is relevant when making investment decisions as the related risks are viewed as potentially material.

Campbell and Slack (2011) use a similar approach as Solomon and Solomon (2006) in their study where they investigate whether sell-side bank analysts use annual report environmental disclosures. Through their interviews, they find, as opposed to Solomon and Solomon, that the analysts do not find the environmental disclosures relevant. One potential explanation for this discrepancy between analysts' and fund managers' views of environmental (sustainability) disclosures could stem from the idea of different time frames when making decisions (or recommendations as is the case for analysts). As the analysts, as Cambell and Slack (2011) discuss, usually have a short to a medium frame of reference, they might not consider the potential environmental risks as material. They conclude in their study that the only two ways which could make analysts include, and use, environmental information are 1. a major environmental incident that would show the importance of environmental risk assessment, and 2. pressure from further along what they call the "supply chain" e.g. from fund managers, requesting such information. The implications of the findings of Solomon and Solomon would reasonably lead to sell-side analysts actually including such information in their analyses since the demand seems to exist.

Amel-Zadeh and Serafeim (2018) analyze why, and how, mainstream investment organizations use reported ESG information. Their study is based on a large global survey conducted with senior executives and fund managers. Among their results, they find that over 80% of respondents use ESG information because it is financially material to investment performance. The respondents that did not consider ESG information in their

investment process do so mainly because they do not see any stakeholder demand and because they lack access to reliable non-financial data. The findings of Amel-Zadeh and Serafeim (2018) further show the need for more studies on the sustainability aspect of investing. Growing stakeholder demand is found to be one of the most significant reasons to include ESG information, but at the same time, the lack of stakeholder demand is found to be the most important reason as to why ESG information is not included. It is, of course, possible that these contradicting results occur in different clusters e.g. countries, which is not discussed in their research. Regardless, this shows that the perceptions of managers are not all collective and that additional research is needed. This study also concludes that investors seek more standards in the reporting of ESG information which is similar to the findings of Solomon and Solomon (2006), who find that more comprehensive public information is needed.

Amel-Zadeh and Serafeim (2018) further find that ESG information is used in three distinct ways by investment organizations. These are active ownership, integration into stock evaluation and negative screening. A similar study made by Eccles et.al (2017) that uses the same research method also finds that negative screening is among the most common ways of integrating ESG as well as active ownership and integration into full evaluation of stocks. A thematic strategy was also common among the investors in their study.

2.2.2. Identifying Accounts as Information

Du Rietz (2014) investigates the process through which accounts become identified as information by interviewing ESG investor analysts. The study relies on earlier work of epistemic practice within the Science and Technology literature developed by Karin Knorr-Cetina, which will be further explored in the theoretical section of this study.

Through the interviews, Du Rietz finds that to be able to distinguish information from irrelevant accounts, the analysts specify what they want knowledge about. This is referred to as the epistemic object. Hence, how one defines the thing they need information about vastly affects what information they find, and what they consider to be relevant information. Du Rietz discovered that the analysts are faced with a general information overload, all the potential information cannot be processed, and a selection of accounts is

necessary. This is where the definition of the epistemic object is made, in this case, the ESG performance. What is considered to not be part of the definition is also outlined. The irrelevant accounts that do not fit the definition are thereby disregarded in the analysis. To further narrow down the relevant accounts, deciding what the epistemic object consists of makes it easier to collect the relevant information.

The work of Du Rietz has important implications for the study of ESG integration in the financial analysis process. Although the study's focus is on analyzing how accounts are identified as information, it sheds light on some relevant aspects concerning the integration of ESG in businesses and can be used to explain discrepancies in the ESG analysis among investors. As the opinion of what is relevant ESG information is subjective to every investor, what is considered information differs as well as the definition of ESG. The work of Du Rietz is particularly relevant in the ESG discussion today as investors seek more standardisation in the matter. The new taxonomy within the EU is, as mentioned above, a step towards more collective views of what sustainability information consists of and how to quantify what a sustainable activity is. Therefore, with regards to the work of Du Rietz, the taxonomy may facilitate a more common view of what ESG information is and how to measure if an activity is sustainable or not. In other words, it may help to outline what the epistemic object consists of and how to find the relevant accounts in the quest for meaningful information.

2.3. Theoretical framework

The pioneering research concerning epistemic practice within social studies of finance can in many aspects be attributed to Karin Knorr-Cetina (2007) and the theoretical framework by which we will try to make sense of our empirics is based on her research in the field of epistemology. In her work, Knorr-Cetina develops the concept of epistemic cultures from earlier studies by extending the term epistemic. In previous research, the focus has been on knowledge construction and making sense of the various activities observable from a scientific inquiry (Knorr-Cetina, 2007). Knorr-Cetina suggests that the notion of epistemic culture is more aggregate than this and advocates that it includes “the construction of the machinery of knowledge construction”. It is, as she mentions in her research, “a switch from an understanding of knowledge as the representational and

technological product of research to an understanding of knowledge as process, or in other words, to knowledge as practice".

The work of Knorr-Cetina is suitable as a base for the theoretical framework relating to a study such as the one conducted here. Du Rietz (2014) conceptualizes the work of Knorr-Cetina in a way that makes it very applicable in this study. She recognizes that the research object (which in this thesis constitutes the ESG data of investors) is useful when studying knowledge as a process. Since Knorr-Cetina focuses on the specific process in which a machinery is constructed that in turn constructs the knowledge, her work is centered on the three parts that constitute the full process. That is, the relationships between the epistemic object, the machinery, or technology as well as the research object. Applying the above-stated relationships to this study would thereby indicate the following: The epistemic object, which is the definitive result, constitutes the ESG performance that investors find useful and valuable for the decision-making process. The machinery (technology) can in the ideal case be considered a model used by the investors. It can for example be a financial one, such as a DCF model, however not necessarily. The research object is the various raw data available to the investors. The process that takes place is therefore that the research object is processed by the machinery (technology) which ideally yields the epistemic object, or in other words, the data is processed by the model which leads to useful information. The above concept will constitute our theoretical framework. The empirics we receive from the conducted interviews will be analyzed using these three parts of the process which Du Rietz names as the transformation from accounts to information.

The Technology part of the model is the central part that will help us understand the empirics we receive from the fund managers. This is because the technology aspect is the central step in answering our research question of how ESG information is used. When analyzing our results, we will therefore split up the results in a way that segregates them into these three groups. This has the advantage that the 'how'-question can be determined irrespective of potential differences in ESG definition. The technology can be viewed as a frame where every investor is bound by the regulations and standards of their respective institutions and clients. The taxonomy can be seen as a further framing, and an objective

process of how to use ESG information and is therefore considered a technology. How this is determined and plays out in practice is outlined in the discussion.

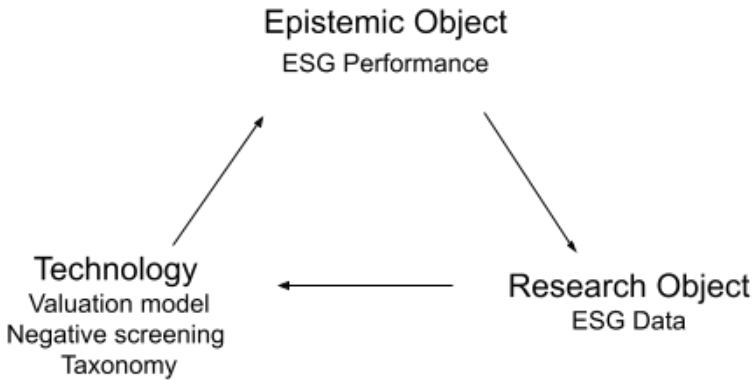

Figure 1. The framework for "the knowledge as a practice" process. The arrows indicate how the ESG data is used in the technology which produces the epistemic object of ESG performance. In addition, the initial definition of the epistemic object determines what ESG data the investors use.

Du Rietz`s findings show that analysts spend a large amount of time on interpreting which accounts are information and not merely on the general process of interpreting accounts. This has great implications for our study since the ESG analysis can be done in many ways with room for free interpretation of which accounts are relevant as well as what information is useful from said accounts. This further leads to individual disregarding of accounts, hence important information to one party may not even be considered information to another, although they fundamentally may search for similar information to incorporate in their analysis.

To be able to answer the question of how investors use ESG information, it is critical to first outline what ESG information actually is. Since there is no general rule or framework for involving ESG in the traditional financial analysis, it can differ substantially between different investment institutions and therefore result in various interpretations of what ESG information is and consists of. By applying Knorr-Cetina's theoretical concept on this issue, with the interpretations of Du Rietz, we hope to be able to make sense of our empirics by relating it to epistemic theory as developed by Knorr-Cetina and conceptualized by Du Rietz.

3. Research Methodology

In the following chapter, the research methodology will be presented. The first section describes the research design and approach. The following sections, 3.2 and 3.3, discusses the data collection process and analysis of data. This is followed by a motivation of the quality of research in section 3.4.

3.1. Research design and approach

The aim of this study has been to explore how institutional investors consider ESG information when investing and selecting companies into their funds. To answer our research question, this study has been carried out as a qualitative study with an exploratory research design. The thesis followed an abductive approach, in which the theoretical development, data collection, and analysis of data emerged iteratively, unceasingly examining the collected data against the theory while narrowing down the research question (Ahrens and Chapman, 2006; Dubois and Gadde, 2002). Furthermore, we used an open-ended research question in order to understand *how* the ESG information is considered during investment processes. A qualitative approach with an open-ended research question was selected due to explaining rather than describing the field of interest in the study (Otley and Berry, 1998).

3.1.1. Exploratory research design

The chosen exploratory research design is suitable since we are aiming at exploring new dimensions of a matter (Saunders et al., 2019). Furthermore, exploratory research is determined by the need to explore the field, and to investigate the current literature regarding how fund managers perceive ESG information during investment decisions and make a comparison to empirical evidence from the personal interviews (Eisenhardt and Graebner, 2007). Additionally, an exploratory research design is the most accurate approach since the phrases connected to sustainability are constantly being updated with new definitions. This fluctuation is due to emerging regulatory demands and continuous changes, e.g., the EU Taxonomy, changing businesses, thus also affecting the content of ESG (Brown, 2006).

3.1.2. Delimitations

One aspect of ESG integration in investments that is excluded in this text is the case of socially responsible investments (SRI) or ethical funds. The research on this topic is quite well documented in the literature but has for this study deliberately been left out. For the scope of this study, the purpose is to explore the role of ESG information for institutional investors in a general sense. That is, we want to, as far as possible, avoid interviewing and collecting data from investors and fund managers that may have any special ties to pronounced sustainable investing. An example of this could be interviewing a manager responsible for company sustainability or a fund manager in charge of a portfolio of companies with a renewable energy focus. The reason we want to disregard these is to minimize the bias in the interviews and get a more generic picture of how 'traditional' investors are reasoning in these matters.

3.2. Data collection

3.2.1. Primary data

The thesis' primary data collection has been based on in-depth interviews with Swedish fund managers with investment experience from managing stock funds whereas one investor managed mixed funds. As highlighted by Qu and Dumay (2011), semi-structured interviews enrich the researchers to deeper understand how the interviewees perceive the phenomena that is being studied due to the flexible nature of these types of interviews. In this study, a total of seven interviews were conducted with fund managers without any specific ESG related profile. The interviews took place from March - April 2021.

3.2.2. Semi-structured interviews

Semi-structured interviews contain a predetermined interview questionnaire that was used as a guideline to collect qualitative data. The aim was to only interview fund managers that did not have explicit ties to ESG and sustainable investing in order to minor bias results. The questions were formulated as open-ended questions with the aim of eliciting less restrained responses (Ayres, 2008). Semi-structured interviews generate more natural conversations, which can lead to more detailed and wider findings. This is because interviews open up the possibility to ask further clarifying questions and discuss

if something interesting is being noticed (Bryman and Bell, 2015). Thus, interviews of semi-structured nature are among the most commonly used qualitative methods (Longhurst, 2003).

The empirical findings of this study are based on the views of seven fund managers that are all employed by a Swedish investment institution, with authorization from the Swedish financial supervisory authority. The size of assets under management (AUM) ranges from 1 000 to over 88 000 MSEK. All types of funds are actively managed stock funds, most of them with a focus on Swedish small-mid caps, all accessible to small private investors and savers, other institutions, and available in the Swedish premium pension system.

All investors have comprehensive professional experience from the finance industry (>10 years) with backgrounds as fund managers ranging from three years to over 20 years. Some of them have worked in multiple financial institutions of which three investors have been fund managers at different institutions. None of the managers have any specific ESG related background more than what is part of their current positions and as Investor A, who has over 20 years of experience as a fund manager puts it *"20 years ago we rarely discussed these matters (ESG issues). The development is driven by increased awareness. When I started, people did not understand how serious the effects on the environment were and it (ESG considerations) were not part of the investment analysis".*

Table 1 - Fund managers interviewed

Fund manager	Type of fund(s)	Years as manager	AUM*
Investor A	Stock fund	>20	30 000 MSEK
Investor B	Stock fund	3	3 000 MSEK
Investor C	Stock funds	>20	12 600 MSEK
Investor D	Mixed funds	3	88 500 MSEK
Investor E	Stock funds	3	6 000 MSEK
Investor F	Stock fund	13	1 000 MSEK
Investor G	Stock fund	20	8 000 MSEK

**Assets under management in rounded numbers. Some investors managed more than one fund and it is the total AUM stated above.* Source: Avanza Bank.

The conducted interviews lasted on average for 40 min (see Appendix A) and were held by phone or video due to the Covid-19 restrictions. Prior to the interviews, all fund managers were informed about the purpose of the research and their anonymity. All interviews were audio-recorded by approval of the interviewees, held in Swedish, and transcribed into text. The aim of transcribing the interviews was to enhance both an overview and detailed information since interviews involved content relevant to the analysis (Kowal & O'Connell, 2014). Quotes that did align with the selected themes in our empirical findings were translated from Swedish to English. Thus, the transcripts were conserved in their original form throughout the thesis.

During the first two interviews, some revisions of the questionnaire occurred. Additionally, the structure of the interviews was carried out similarly, with an introduction about the fund managers' experiences in the beginning, and questions related to future forecasting of the ESG development at the end. After the introduction, the interviewees were asked questions that related to various themes. The primary focus area of these themes were questions related to ESG information and the selection process of companies into the stock portfolios (see Appendix B). The primary aim was to enhance

our understanding of the fund managers' perceptions and strategies when making investment decisions from their individual perspective.

3.2.3. Secondary data

Although interviews were the main method of data collection, secondary data was collected from internal reports and the fund companies' websites to deepen the analysis. Furthermore, data concerning *Assets under management* (see table 1; section 4.1) was collected from an external source. The secondary data collection merely had the aim of enhancing our understanding and gaining an overall picture of the situation.

3.3. Data analysis method

Overall, analyzing interview data material involves data organization, reduction, and representation (Roulston, 2013). The selected research approach, also covered in section 3.1, follows an abductive approach as the framework of the theory was evolving iteratively. In the beginning, the process of analyzing data was primarily through an immediate brief discussion about the findings. This enabled us to evaluate each interview content orally. The transcribing process enhanced our understanding by noticing detailed information (King, Horrocks, and Brooks, 2019). As interview material grew, the qualitative data could be categorized into various empirical themes suitable for answering our research question.

All questions were examined and analyzed to be aligned with our research question, theoretical framework, and literature background. In the analysis process, we mainly used the Gioia method as a point of departure in order to find critical factors in the textual data (Gioia et al., 2013). Taking the Gioia method into consideration, the data was coded and analysed in a first and second order analysis. Primarily, as our first order of analysis, we analyzed resemblances and divergence in our collected data to categorize the empirical findings into themes. As our second order of analysis, we tried to observe various themes that divulged concepts that could enhance our understanding and guide us to investigate the phenomena we sought to study (Gioia et al., 2013). After interviewing our targeted stock fund managers, we considered that we reached theoretical saturation (Glaser &

Strauss, 1967). In parallel to the analysis of data, empirical findings that were perceived as unrelated to our research question were excluded from the data analysis.

3.4. Quality of research

The quality of research data has typically been assessed through the reliability and validity of the data (Yin, 2009). Nonetheless, as the field of qualitative research within management accounting is constantly growing, some states that these previous phrases were established to estimate the quality of quantitative data collection rather than the nature of qualitative data findings (Dubois and Gadde, 2014). Commonly used phrases to determine quality of data in qualitative research are trustworthiness and plausibility (Ahrens & Chapman, 2006).

In terms of trustworthiness, this study focused on securing nuanced qualitative data by providing narratives from investors from various companies and with divergent experiences in terms of years as managers. This provided us with a deeper understanding of the fund managers' perceptions. The second phrase is plausibility and it is recognized in our study as we have provided credible guidance on the data collection and data analysis process. A further concept related to plausibility is causality which we covered by centering our attention to open-interview questions referring to how ESG data is incorporated in investment decisions which contributed to in-depth descriptions of the phenomena that was being studied. Potential risks with qualitative research are that the interviewees answer in a way that is in line with the social norms of society, since there is an awareness of being recorded. Thus, to reduce common answers based on socially accepted norms, the interviewees were informed about the anonymity of the conducted material in advance.

4. Empirical Findings

In the following chapter, a selection of our empirical findings from our conducted interviews will be presented. This chapter is divided into various themes based on our questionnaire (see Appendix B) and structured in line with our theoretical framework: factors mainly connected to the epistemic object and technology in section 4.1 and further factors relevant for the technology aspect in section 4.2 and 4.3. Thereafter, the empirical findings chapter ends with section 4.4 explaining reasons why ESG information is considered in the investment analysis.

4.1. Defining a sustainable investment

After a brief introduction from the interviewees, they were, first of all, asked about how they specifically defined a sustainable investment in their company (see Appendix B). There was a collective view among the fund managers that one of the first steps after obtaining the necessary and available data was an initial negative screening. This screening was usually made externally or by ESG representatives.

> Investor B stated, *"We refrain from investing in companies where more than 5% of the total revenue comes from the production of alcohol, tobacco, weapons and gambling products or distribution of pornographic material".*

> *"We have for a long time excluded businesses active in the fields of tobacco, alcohol, pornography, gambling, and weapons". (Investor C)*

All investors had in some way principles that limited them from investing in the five sectors mentioned above. Investor A also mentioned the negative screening process but went on to problematize and elaborate on this part a bit further. Using the example of the Swedish weapons manufacturer SAAB, Investor A stated a couple of rhetorical questions about how a general definition is difficult to achieve although the exclusion of these sectors spares them (the investment institution) potentially difficult conversations with stakeholders.

"*Is it sustainable to manufacture ordnance for military use? What would the world look like without weapons? Would we have a less sustainable society if countries could not protect their borders? SAAB manufactures products for demining. Is that good or bad? I think it is good for society. Sometimes the discussion (the discussion about what is considered a sustainable activity) becomes a bit strange because somebody decides that something is bad". (Investor A)*

Investor C also used the weapons analogy to illustrate how it can seem easy to have a negative screening process but that it can be difficult in practice and that it is not always easy to simply exclude a company on a prerequisite, especially when the prerequisite is not fully determined. *"The reality is more complicated, where do we draw the line? For example, how do you define a weapon?".*

Investors C and D both stated that a sustainable investment includes the consideration of long-term profits for clients as well as a positive development for society and the environment. Investor B and C provide a perspective where sustainable investments could be divided into different groups depending on core activities taking place in the investee company. These groups were decided through the level of perceived environmental impact. Companies with distinct and measurable impact on the environment were considered as one group whereas companies with much more subtle impact were considered another. These groups then had different expectations on them with regards to their respective ESG challenges.

"Regarding companies with greenhouse gas emissions, chemical waste or similar, it is important to us that the companies are aware of this (the impact they have on the environment) and have specific targets aimed at handling these issues. However, when assessing companies that have a smaller direct impact on the environment such as software developers or digitalization companies, we look particularly at issues regarding employees such as personnel turnover, sick leaves, employment satisfaction and so on". (Investor C)

[…] Where I believe the profits are heading is the most important part. Then, how the company fits in its environment (competitive environment) is the aspect that

steers this assessment and there the ESG issues are of different importance depending on business". (Investor B)

4.2. ESG in the investment process

When considering ESG factors in the investment process the investors D and E stated that the ESG analysis is made as a separate analysis which is later incorporated in the full consideration together with the financial aspects.

"When I am in the process of including new companies in the portfolio the screening comes first. We use both quantitative data when making this analysis (The ESG analysis) but also a qualitative analysis that is more subjective. For me, as the manager, it is important to take all aspects of the ESG factors into account". (Investor E)

Investor E elaborated on the issue regarding the subjective part of the ESG analysis and said that it is the managers role to ultimately decide if an investment aligns with the internal company framework which was said to have been developed by specialists in the area of ESG. Another view of how the ESG analysis took place was that of an integration with the full investment analysis. That is, the ESG issues were considered as part of the fundamental analysis and the perceived risks were determined by the fund manager, sometimes in dialogue with ESG specialists. Investor B stated *"It is part of the full company analysis which I make. If I decide that I want to invest I must however get clearance from the Head of ESG first.* (This was said to mostly be a quick formality process)

When assessing the ESG issues together with the financial analysis, one view was to not only focus on ESG from a risk perspective but instead try to make an assessment from an opportunity standpoint. The opportunities mentioned could be directly related to changes in sustainability efforts as well as a company's possibilities to perform better than they currently do.

"I don't see the ESG analysis as a separate analysis. It is part of the general assessment. I try to get a picture of what challenges each company faces but it is equally important to look at the opportunities companies have within sustainability.

Is this a product that I think will increase in sales because of increased demand due to striving efforts for more sustainability? (Investor A)

Some investors specified how they use their strong positions to initiate dialogues with company representatives in their investee companies. In their positions as relatively large shareholders, they mentioned how it many times is possible to somewhat push the companies in a more sustainable direction.

"ESG is integrated into the full analysis process. We (referring to the investment institution) are very close to our investee companies and often quite big owners. We have a continuous dialogue with corporate management, therefore it becomes natural that ESG is part of the discussion". (Investor C)

The use of active ownership was found to be present in all interviews in different ways. Direct active ownership where the institutions use their large positions to achieve desired changes was one way. However, this was not always possible. Investor G mentioned how they had made an investment in a foreign company where it later turned out that the company had violated human rights. After dialogue with company representatives that did not reach the desired, or demanded, outcome, the company was divested.

Similar concerns were expressed by investor F who mentioned that a company that had not passed the negative screening criteria still could be included in the fund. After discussing the matter with ESG specialists, and if the company was assessed to have the possibility to change this part of its business through dialogue and active ownership efforts, it could make a list of exceptions. These companies were usually subject to additional scrutiny and due diligence.

4.3. Standardisation concerns

4.3.1. General concerns

The absence of standards within the ESG disclosing practice was considered a major problem among the investors. It was clear that this question was one of the bigger challenges when interpreting ESG information in prospect companies. The comparison or benchmarking with other prospects was very difficult to make in some situations and

sometimes not even applicable, even though some metrics were quantifiable. Investor A expressed it as: *"It is impossible to say that company "Y" has this amount of emissions, and company "Z" has this lower amount. Do I then pick company "Z" based on the emission levels if they otherwise are equal? What about their ambitions?".*

A major concern among the investors was how to compare and interpret information from prospects when they disclosed different kinds of information, or not disclosed any information at all. A few of the investors manage funds that invest in very small companies and in these companies the sustainability perspective was said to many times be quite poor. The reason stated was not because of a lack of consideration, but mostly because the companies lack the necessary resources in their current state.

One investor stated that although there are difficulties in integrating the ESG information in a wise way, a perceived risk can be applied to a cash flow model in the form of a higher required rate of return on the investment. *"Over time, when you work with ESG issues in your investee companies […] you get a pretty good perception of what risks and what opportunities a company faces. That makes it possible to connect the question to the cash flow analysis and a WACC assumption that is used in our models". (Investor C)*

4.3.2. Taxonomy related concerns

The new taxonomy emerging was frequently mentioned with regards to the standardisation issue. The general view was that it will facilitate comparisons between companies and is a step towards more standardised ESG disclosure. None of the investors saw any future difficulties regarding their own work but rather a welcomed initiative towards more transparency. Investor B mentioned that the taxonomy probably would cause trouble for companies that today market themselves as sustainable but in reality are quite unsustainable.

> *"The direct effect on our business (of the taxonomy) is that it affects how we classify our funds, which in turn will depend on how we assess if it is a class 8 or class 9 fund. […] This, in turn, will probably have a large impact on the flows in and out from the institutional clients, where funds that score higher will see big inflows". (Investor B)*

"With the implementation of the EU taxonomy […] we see that it becomes easier to quantify and analyze ESG data. Hopefully, this will lead to a big step towards standardisation within ESG reporting […] and less subjective analyses which make it easier to compare companies with each other". (Investor C)

Investor F was also of the opinion that the taxonomy will make it easier to compare companies with each other "*The taxonomy provides a new dimension to the sustainability work where the central part is about comparing industry peers…"*

Investor D highlighted that the taxonomy will be of perhaps the greatest importance to customers that want to invest in a sustainable way. This is similar to the earlier statement of investor B who said that unsustainable companies will have a hard time pretending to be sustainable.

"*The challenge with ESG today is the lack of standards. […] The lack of data and common standards is problematic for companies, for us that manage the capital, and not least for the customers. […] The taxonomy will make it possible to distinguish what is green investments and yellow investments". (Investor D)*

4.3.3. Future outlooks – Short term skepticism

The Fund managers were lastly asked about how they view the future with regards to ESG issues in both the short term, focusing on the taxonomy, as well as any long-term considerations concerning the incorporation of ESG in the investment process.

Regarding the near future with the incorporation of the taxonomy, one view that was highlighted by some investors was that of an initial problem with valuations of certain companies. Investor A made it clear that they (the institution) saw a risk of a skewed valuation of companies that after the full integration of the taxonomy would be considered "very green".

"A company perceived as very green will be valued in a strange way because the absence of a broad selection of such companies will force sustainable funds to choose this particular company which makes the price skyrocket". (Investor A)

Investor B stated a similar concern as that of Investor A but thought that it would only constitute a temporary problem and that this problem would be more complicated to deal with for funds that have limited investment opportunities such as thematic funds and especially funds that only target very sustainable companies.

> *With the taxonomy, there is a risk of an initial bubble because there are so few companies (that belong to a certain high class of sustainability). If you want to be classified at the top of the taxonomy and you run a thematic fund there will be a lack of options (companies) to invest in. […] This behavior will increase the valuations to unreasonable levels which can lead to a negative development. (Investor B)*

Another similar risk perceived was that the taxonomy could lead to companies trying to manipulate things in order to be viewed and classified as more sustainable. Investor E made such a point and stated that with the taxonomy there will be incentives to belong to a certain sustainable class in order to attract a larger investment base and thereby get a higher valuation.

The long-term view of the investors was that ESG issues would constitute an increasingly important part of the investment process and become a more prioritized question among different stakeholders. The long-term effects of the taxonomy were not discussed to a large extent but the collective opinion among the investors was that it would make it easier to take ESG matters into account in the future, although more efforts to standardise ESG issues were deemed necessary.

4.4. Why ESG factors are considered

4.4.1. ESG as a tool for value creation

There was a view among some of the investors that a major reason for considering ESG in the analysis was because of financial considerations. They were of the opinion that the companies best positioned for the future would not need to make costly adjustments in order to align with new legislation, nor had these companies any big risks of "unwelcomed non-financial surprises" as one investor put it.

Companies with a long-term mindset […] tend to be more responsible by nature. They also attract good employees. A good ESG profile is often strongly correlated with good companies on a businesslike basis. This way ESG is important to identify value creation. (Investor C)

A combination of value creation, because I believe the future winners will be found in this group (the group of companies that consider ESG issues in their operations) which is incredibly important to be able to be at the forefront of sustainability. (Investor D)

Investor F explained that they consider ESG issues because of three reasons. The most important one was financial, followed by risk mitigation and client demand.

4.4.2. ESG as a tool for risk mitigation

A few different reflections were distinguished regarding what risks faced companies and how ESG considerations could affect these perceived risks in different businesses. The first, a reputational risk, where customers actively choose to not buy from a particular brand or business because of scandals or negative news concerning emissions, labor rights, etc. The other risk was concerning expensive future costs that could emerge due to either new legislation which could force some companies into making costly upgrades or due to consumer demand. A changing competitive landscape was also mentioned as a risk, where customers leave for more sustainable options.

[…] I make that kind of investment anyway, provided that I don't think that actor is the worst among its peers. […] Awareness of the risk of losing a lot of customers that can turn the impressive earnings today into a bad development going forward is very important". (Investor B on making investments that carry relatively high ESG risks)

4.4.3. ESG demanded and expected by clients

A frequently recurring remark among the investors was that ESG consideration many times is a necessity to operate the business. Some of the fund managers have very large clients such as institutions which were said to have the ESG issues high on their agenda.

All investors were of the opinion that ESG considerations are important to clients and continuously increase in demand, however not all investors thought sustainability issues were important to all kinds of clients.

> *"There are basically two segments of clients. Institutional clients and then private savers/investors that invest through Avanza, Nordnet, etc. I don't have any direct contact with private investors […] but I think they are mainly performance-driven. However, on the institutional side, I more or less talk to all clients that are invested in the fund, and there the ESG question is very important". (Investor B)*

> *"I would like to say that the biggest risk is to not include ESG in the analysis at all. Our clients expect that we take these matters seriously". (Investor E)*

Regarding the different types of clients, one remark among a couple of the managers was that the institutional clients put different importance on the sustainability issue. As these clients could range from sustainable research foundations that needed their investments to reach a certain sustainable standard, to clients that put less emphasis on the sustainable part, entails that the fund as such has to align with the "values" of the more constrained client.

5. Discussion

The following chapter discusses previous research in comparison to the empirical findings. Firstly, we discuss why institutional investors consider ESG when selecting companies into their portfolios. Secondly, we discuss how ESG data is considered in the investment process by institutional investors. Finally, we link our empirics to the theoretical framework.

5.1. Why consider ESG aspects

Connecting back to the study made by Amel-Zadeh and Serafeim (2018) we find that there are similar tendencies and reasons as to why institutional investors consider ESG in the investment process. Client demand and value creation were found to be the most crucial ones together with ESG as a tool for risk mitigation. Thus, there were no remarkable findings directly associated with the '*why'* factor of the study but merely confirmations of findings made in earlier studies. Noteworthy is that there was no recognition of an ethical responsibility among the fund managers other than the negative screening and a responsible money management with regards to clients. Instead, it was clear that the negligence of the ESG aspect was in itself too harmful to ignore and the strong connection to value creation made it into a natural inclusion in the analysis process.

5.2. How ESG is used in the investment process

Although our findings indicate that the reasons for involving ESG are quite similar between the interviewed investors, the same cannot be said about the way this incorporation takes place. Our findings indicate that there is a divergence in how the fund managers view a sustainable investment and how they act with the information. When comparing our findings with the closest existing research (Amel-Zadeh and Serafeim, 2018; Eccles et.al., 2017) we conclude that there are some similarities in the way ESG is used by investors. Negative screening and active ownership are the two ways of incorporating ESG that the previous studies find as well. We do not find positive screening or thematic investment to be used to the same extent as found by the previous studies. This can partly be explained by our choice to not interview fund managers that

manage thematic funds, since we wanted to achieve as much autonomy as possible, which would not be possible by interviewing managers of thematic funds. Investor B (of our interviewed investors) specifically mentioned how thematic funds are subject to additional risk since they are limited to make investments that align with a specific theme. The previous studies, which uses a method including large surveys sent out, reaches a broader group of investors, including thematic funds as well as regular stock funds, hence the different results. The lack of positive screening can be argued to be explained by the fact that it is much more used in pronounced responsible investment strategies (Van Schyndel, 2021). Since our study actively chose to exclude ethical funds and instead focus on traditional funds, the lack of positive screening as an investment strategy can be explained.

By interviewing fund managers without a specific ESG profile, we hoped to gain insights that previous studies had not found. What we can conclude from our interviews is that the incorporation of ESG among Swedish fund managers is made in a somewhat subjective way. That is, the fund managers are found to have much more personal influence on what to consider a sustainable enough investment than what we find from our benchmark studies (Amel-Zadeh and Serafeim, 2018; Eccles et.al, 2017). We find that this is caused by the various ways investee companies disclose and present their ESG data. The managers are also found to have strong decision power regarding how to interpret the ESG data accessible to them, the risks and opportunities.

5.2.1. Knowledge as a practice

Besides the negative screening and the consensus of subjective reasoning found in our study, the process looks quite different. Applying Knorr-Cetina's "knowledge as a practice" perspective on this question can guide us to understand these differences.

The research object, which constitutes the ESG data that the investors have access to, and that also makes up the first step of the "knowledge as a practice" process, was found to be collected in a relatively similar way and for the most part, contained similar items. The relevant data that the investors accounted for was either obtained as concrete numbers e.g. emission data, in dialogue with company representatives regarding risks and opportunities, or from an external party providing ESG data, e.g. Sustainalytics.

Combinations of these were the most common. It was evident from these findings that after obtaining the data, a subjective, or personal, decision had to be made, as long as it was within the institutional framework of investment possibilities.

The initial phase of the technology step of the process begins with the negative screening. However, it could be argued that this should constitute a part of the research object as a first step since it can be considered a disregard of irrelevant accounts. This aligns with the findings of Du Rietz (2014) who concludes that a significant amount of time is spent on choosing which accounts are to consider as relevant, and since the negative screening partially works as a mechanism to filter out unwanted or irrelevant data, it can be considered as part of that initial process. In the end, it becomes a matter of definition. On a larger scale, a screening process also includes the consideration of historical negative incidents such as corruption, etc. (what is considered negative incidents is predefined as one defines the epistemic object) and not only a disregard of companies dependent on their business activities. Including the above perspective to the negative screening process makes it possible to consider it as part of a technology. This part is quite standardised as we find in our results with a few considerations that all institutions account for. After the screening, the investors depart from each other on a more noticeable level. Only one of the interviewed investors (Investor C) mentioned that the ESG information could be measured as a concrete risk or opportunity and applied to a valuation model. This is why the second step, which ideally would constitute a technology that yielded a similar result for every person using it, still mostly is made up by the investors own opinions and experiences, besides the screening. It may, as some investors mentioned, also be discussed with ESG specialists, but in the end, it is the managers decision.

In our study, we do not find a common technology, such as a valuation model, used among the interviewed fund managers, except for the negative screening. We thereby conclude that most investors do not use a dedicated objective technology for ESG incorporation in their investment activities. The consequences of inadequate technologies can be that ESG issues are not taken seriously in the analysis but merely quickly dealt with to satisfy stakeholders. On the other hand, the consequences may also be positive. As Investor C noted, a personal interpretation makes it possible to be flexible in the analysis by accounting for the various characteristics companies have and thereby “tailor” specific

ESG demands to specific companies depending on business model or challenges facing a particular company. A definite consequence is however that the investors come up with different conclusions regarding how sustainable a company is, the size of the ESG related risks, and in some cases what the opportunities are within the sustainability field. It was clear from the interviews that the subjective nature of ESG considerations and the lack of common standards cause problems for the managers when evaluating companies. Connecting this issue to our theoretical framework indicates the following: a lack of common practice as to how to interpret and use ESG data creates a space, or room, where fund managers can decide quite independently how to choose to understand and view the data when facing decisions, bound only by the institution itself and in some cases also by clients. The conclusion is therefore that there is a lack of collective technologies in terms of valuation models. The collective technology that we find is the negative screening process.

Central for this report is the new emerging EU taxonomy and its implications for the work of institutional investors. In the conducted interviews, the taxonomy was often mentioned as a future facilitator of standardisation in the ESG field. The recognition of the importance of having a sustainable perspective was clear among the managers, and how it continuously increases as an essential consideration among many clients. We can conclude from our results that the fund managers are currently struggling with how to evaluate, or account for, ESG issues in their analyses. Although the respective managers have certain standards of their own that they use, the differences in individual companies' disclosure of ESG information complicates the work of the fund managers. That is, even though an individual manager may have a practice that should work, it is dependent on the premise of similar disclosure by investee prospects or companies in order to objectively function as intended. With the above in mind, it is evident that if the taxonomy has the expected impact, the work of the fund managers with regards to personal ESG decisions will become less subjective. This means that the current “room” of free interpretations will be narrowed down which in turn decreases the risks of inaccurate analyses and increases the chances of fair evaluations and comparisons between investee companies, provided that the taxonomy works as intended. We therefore conclude that the taxonomy can be considered a new technology in the knowledge as a practice process of ESG incorporation. A remark briefly touched upon in some interviews was however

that the taxonomy can only do so much. With time, as sustainability issues continue to rise in importance to stakeholders more efforts will be needed. What these efforts should contain was not discussed but that it should further constrain the subjectiveness of ESG disclosure and analysis was clear. Hence, with the taxonomy there will still be room for the managers to make some interpretations of their own, but to a lesser extent.

The final step of the theoretical framework constitutes the epistemic object, which in this study is made up of ESG performance. It can however be argued to also be the first step since the process of knowledge as a practice begins with the definition of the epistemic object. Regardless, the end result should ideally be ESG performance. This end result is the output of the technology and since the technology changes with the inclusion of the taxonomy, the epistemic object can be argued to change as well. In other words, the ESG performance of a company today may change in the future as the taxonomy is present, and alter how institutions view ESG performance.

6. Conclusion

The aim of this thesis has been to investigate how Swedish fund managers use ESG in their investment process in relation to factors from our theoretical framework including factors as the epistemic object and technology. Through reasonings about the empirical findings in relation to previous literature and the theoretical framework, we have found empirical material both supporting previous research as well as new findings regarding the investment process of traditional fund managers.

Our study contributes to the Finance and Accounting literature by further exploring the process of how ESG is considered in investment decision making. Using a theoretical framework based on research concerning epistemology (Knorr-Cetina, 2007), we have studied how the investment process looks regarding ESG. The chosen framework has made it possible to outline important differences in the way fund managers view ESG. The added perspective of this study is that it has used an in-depth interview approach and solely focused on fund managers that do not have nor use a specific ESG profile or investment style. This group of investors was chosen because it holds a significant amount of the world's capital (Aguilar, 2013) and therefore is considered a particularly important participant in the financial markets.

Our main contribution is that we find that the process of incorporating ESG to be subjective to every fund manager, which we find to be caused by the subjective, or individual, nature of ESG disclosing among investee companies. However, and as previous studies confirm, a negative screening and active ownership is used in this process. These are the only collective methods that we find, used by the Swedish institutions participating in this study. Furthermore, we conclude that fund managers are bound by the internal policies of the institution they work for, and within these bounds are relatively free to act on their personal judgement.

Our second contribution concerns the new taxonomy currently knocking on the door of European businesses. Measures to address climate change have perhaps never seen such efforts in the way companies view and especially, disclose ESG information. This naturally has implications for fund managers that review these affected companies. Now,

as the taxonomy is yet to be realized, it can only be speculated what impact it will actually have. It is therefore of interest to investigate what the expectations are among the participants affected by it. We contribute to the literature by identifying how investors view the taxonomy and what implications it will have for their work. Our contribution is closely tied to our theoretical framework where we conclude that the taxonomy can be considered a technology that facilitates standardisation in ESG disclosing and consequently for fund managers. By using our chosen framework, we further find that technologies, such as valuation models, are not especially common when incorporating ESG in the investment process. The only collective technology that we find is the negative screening process.

In addition to theoretical contributions, this thesis also provides practical implications showing that a majority view the new taxonomy as a changing landscape concerning previous approaches of integrating non-financial disclosures. However, there are limitations to the findings of this thesis. Firstly, a continuing study could have been advantageous for this research by leading to more recognition of how the process advances over time. In addition, as this thesis was written in the midst of a changing business regulation of incorporation of ESG data, the outcome of the taxonomy could not be perceived, rather investors' perceptions of the approaching taxonomy were analyzed. Finally, we acknowledge that other aspects can influence how ESG data is implemented in investment decisions than the factors specified in this study.

Our proposal for future research is to explore the investment processes of fund managers after the European Union taxonomy is implemented in the business sector. As our study explores the incorporation of a non-financial disclosure, before the taxonomy is coming into force, it would be interesting to study if the taxonomy changes the business landscape in terms of decision-making. This would add a new light to our findings by discovering the development and potential impact of the regulation when institutional investors select companies into stock portfolios in the Swedish financial sector.

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8. Appendix

APPENDIX A: Conducted Interviews

Interviewee	Types of fund(s)	Interview context	Interview length	Interview date
Fund Manager A	Stock fund	By phone	40 min	1st March
Fund Manager B	Stock fund	By phone	45min	18th March
Fund Manager C	Stock funds	By phone	50 min	13th April
Fund Manager D	Mixed funds	By phone	40 min	15th March
Fund Manager E	Stock funds	By video	35 min	7th April
Fund Manager F	Stock fund	By phone	40 min	5th April
Fund Manager G	Stock fund	By video	30 min	16th April
		Average:	**40 min**	

APPENDIX B: Interview Guideline

Introduction and Background

1. Do you approve of the interview being recorded? Do you have any questions before we begin?
2. Could you briefly describe your occupation? What are your main tasks and how long have you had this position?
3. How would you describe your experience of financial investments?

ESG and Investment decisions

4. How would you define a sustainable investment?
5. How do you include ESG in your analysis?
6. Is the ESG analysis in the fund portfolio made internally or externally? E.g. Do you acquire the ESG analysis from another company?
7. Why do you include ESG in your analysis?
8. What does the demand for funds that integrate ESG look like?
9. Have you encountered any challenges or risks with integrating ESG in the analysis?
10. There is no standardisation about how to report ESG in financial reports, could this be problematic?
11. Are there businesses you would like to include in the fund portfolios that are not meeting the internal sustainability requirements? On what grounds did you exclude these companies?

The selection process

12. How do you select companies into your funds stock portfolio?
13. When you make investment decisions, how long a time frame do you normally have?
14. What criterias connected to ESG needs to be met in order for a business to be included in the stock portfolio?
15. What kind of strategy do you use if a selected business in your fund portfolio is breaking the criterias for ethical businesses?
16. How do you think the new EU taxonomy will influence your investment decisions?

Future forecasting

17. How has the development of ESG inclusiveness in companies that are selected in the funds looked like during your time as a fund manager?
18. What impact do you believe that ESG will have on fund management in the future?