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Investing with an Objective Conscience

A qualitative study on standardization of socially responsible investing in the Swedish financial market

Abstract

The transition towards a sustainable capital market requires private and institutional investors to shift investments to truly socially responsible companies. Identifying genuinely socially responsible investment (SRI) opportunities is, however, complicated by greenwashing, as some companies attempt to portray themselves as more sustainable than they truthfully are. To combat this, the EU has recently launched its Taxonomy: a standardized classification system that involves detailed criteria about which activities should be viewed as sustainable by investors. Previous studies have, on the other hand, claimed that such standardization initiatives are difficult to implement in practice as a result of the inherent heterogeneity of SRI. Through a qualitative method, this study investigates these conflicting perspectives between practice and previous research by examining how standardization of SRI is discussed by SRI professionals at Swedish institutional investment firms. The findings indicate that standardization as a concept is discussed in an exceedingly positive way and it is clear that the institutional investors welcome standardization initiatives. This is explained by the SRI professionals’ discussions concerning heterogeneity of SRI, which indicate that they associate SRI with less heterogeneity than previous studies have claimed in the past. This renders standardization of SRI more easily acceptable from the perspective of the institutional investors. As opposed to standardization as a concept, the Taxonomy in its current state is discussed less positively as it lacks classifications of social factors and makes erroneous binary classifications. Lastly, the SRI professionals’ discussions concerning the future of SRI suggest that the concept should become more standardized, allowing the concept to transition away from its heterogeneous past.

Keywords: Socially Responsible Investing, Standardization, Heterogeneity, EU Taxonomy, Institutional Investors

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1. Introduction

1.1 Background

The transition towards a sustainable world requires nations and businesses to fundamentally alter their activities to consider environmental, social, and governance (ESG) issues. To facilitate and accelerate this transition, the United Nations developed the 2030 Agenda for Sustainable Development, establishing a plan involving 17 goals that aim to end poverty, protect the planet, and ensure peace (United Nations, 2015). The European Union will assist in achieving these goals by mobilizing at least 1 trillion euros to support sustainable investments over the next decade (European Commission, 2020a). However, the public sector cannot finance this endeavor alone, meaning that a substantial share of capital must come from the private sector, provided by institutional and private investors (Gustafsson, 2020). It is, therefore, imperative that investors direct their investments towards sustainable activities and businesses (European Commission, 2020b). To that end, an issue of particular importance for investors is to avoid greenwashing, which is the practice of businesses to make misleading ESG disclosures by presenting large quantities of sustainability material while performing poorly in ESG aspects (Yu et al., 2020). If investors are misled to allocate capital to businesses exhibiting greenwashing practices, the goals of the agenda will be much more difficult to achieve.

To assist investors in allocating capital to sustainable corporations, the European Union has developed a classification system that involves detailed criteria and classifications about which economic activities should be viewed as sustainable by investors (TEG, 2019a). This system, called the EU Taxonomy, aims to help investors in their screening process to mitigate the difficulty of measuring and classifying sustainability by developing a common language. By making the process of identifying sustainable companies easier, investors can avoid investing in businesses with greenwashing practices and thus contribute with more capital towards achieving the goals set out by the United Nations' agenda. At present, the Taxonomy only comprises climate issues for a number of selected industries, but the European Commission is currently exploring future extensions towards new economic activities and social issues (European Commission, 2020b).

The Taxonomy is among the most comprehensive and elaborate attempts at achieving standardization of so-called socially responsible investing. Socially responsible investing, or

SRI, is an investment discipline that adds consideration of environmental, social, and governance issues to the regular financial considerations when constructing an equity portfolio (Sparkes, 2008; Eurosif, 2018). Sandberg et al. (2009) define standardization of SRI as a scenario in which all investors use similar terminology, definitions, strategies, and criteria in their SRI practices. However, such standardization is difficult to achieve in practice, and it may even be undesired from the perspective of institutional investors (Sandberg et al., 2009; Friede, 2019). This is because of the inherent heterogeneity of SRI, which means that different investors view the entire concept of SRI differently and apply dissimilar criteria in their analyses (e.g. Sandberg et al., 2009; Nath, 2019; de Colle & York, 2009). For instance, while some investors oppose investments in tobacco, fossil fuels, alcohol, and other industries conventionally deemed as unethical, other investors may be positively predisposed towards such investments as they do not perceive them as unethical (Nath, 2019; Schwartz, 2003; de Bruin, 2013).

By extension of this background, a tension between previous research and practice emerges. While previous studies have shown that SRI is an inherently heterogeneous concept, the EU is attempting to standardize it and make it more homogeneous. It is, therefore, more relevant than ever to investigate the true nature of SRI and examine whether it is indeed a heterogeneous concept, and whether standardization could be possible in practice. The answers to these questions can have significant implications for practice. If SRI is inherently heterogeneous, the Taxonomy and its implicit attempt at standardization may not be welcomed by the financial markets. Such tendencies are, in fact, already evident in Swedish media, as several actors from various financial institutions express their concerns over the Taxonomy's classifications and criteria regarding sustainable investments. For instance, Handelsbanken's sustainability officer Catharina Belfrage Sahlstrand argues that the current version of the Taxonomy has wrongfully classified the Swedish real estate industry as unsustainable, even though the industry performs exceptionally well from a climate perspective (Boman, 2020). Furthermore, Gustafsson (2020) posits in Dagens Industri that the concept of sustainability is not binary, but is rather open to much interpretation. She consequently argues that a standardized framework influenced by politicians, such as the Taxonomy, does not allow markets to control classifications of SRI, inducing financial actors to oppose the framework.

The current version of the Taxonomy is, however, only an example of a standardized framework. The issue perceived by financial market actors may thus rather reside in the Taxonomy's current classifications. Perhaps there is openness among institutional investors to use a standardized framework as long as it is developed to consider the heterogeneity of perspectives among market actors regarding which practices should be classified as sustainable. As previous studies point to the difficulty of standardizing SRI due to such heterogeneity (Sandberg et al., 2009; Nath, 2019), such a development may, however, be impossible. Nevertheless, the attempt by the EU to standardize SRI implies that one of the most influential actors in the path to a sustainable world believes that standardization of SRI is possible. This could, on the one hand, indicate that SRI is not as heterogeneous as previous studies have established and that institutional investors may nevertheless be open to standardization if it is done correctly and with the market's various perspectives of SRI in mind. It could, on the other hand, indicate that standardization is possible even in a world where SRI indeed is heterogeneous. Sandberg et al. (2009) speculate that a top-down standardization implemented on a governmental level could potentially overcome the difficulties associated with heterogeneity. The recent development of the EU's Taxonomy presents an excellent opportunity to test this conjecture in practice.

1.2 Research gaps

The above background presents a clear research gap that, to the authors' knowledge, no previous study has investigated: the conflicting views of previous research and practice, where the former depicts SRI as a heterogeneous concept, while the latter attempts to achieve homogeneity in the field through standardization. As these perspectives are in conflict with each other, research is needed to determine if the field is, in fact, heterogeneous and whether standardization consequently is a feasible and desirable endeavor from the perspective of professionals working specifically with SRI at institutional investment firms. Furthermore, a great number of studies on the heterogeneity of SRI were conducted several years ago (e.g. Sandberg et al., 2009), during a time when SRI could still be viewed as a niche market within the financial industry (Arjaliès, 2010). However, as the SRI market is growing rapidly and is becoming more mainstream (Revelli, 2017), SRI develops and so does the concept's heterogeneity (Eurosif, 2018). There is, hence, a need for a renewed understanding of heterogeneity and its relation to standardization in the SRI field.

Although several previous studies discuss standardization of SRI, few have connected the concept to the recently launched EU Taxonomy. Similarly, few studies concentrate on heterogeneity and standardization on the *practical level* of SRI, on which differences in screening criteria and sustainability metrics can be found (Sandberg et al., 2009). Höchstädter & Scheck (2015) even calls for further research concerning heterogeneity on the practical level. As the Taxonomy can be seen as an attempt at standardization on the practical level, its recent development presents an exceptional opportunity to investigate the level further.

1.3 Purpose and research question

The tension between the heterogeneous perspective of SRI presented by previous literature and the EU's attempt at standardization constitutes the purpose of this study. More specifically, the study will begin by investigating whether SRI professionals at institutional investment firms discuss SRI as an inherently heterogeneous concept on the practical level. Subsequently, the study will examine how the SRI professionals discuss standardization of SRI with respect to three aspects. The first aspect involves the professionals' views towards standardization as a concept and whether they are open to standardization initiatives. The second aspect pertains to their opinions on the current state of standardization and, more specifically, the EU Taxonomy. The final aspect concerns their perceptions regarding the direction in which standardization should move in the future. Because the difficulty of standardization originates from the heterogeneity of SRI (Sandberg et al., 2009), it is fundamental for the study to begin by investigating whether SRI is viewed as a heterogeneous concept, to be able to relate the SRI professionals' discussions of standardization to heterogeneity. By doing this, the study will contribute with an enhanced understanding and decreased research gap of the conflicting views of SRI heterogeneity and the EU's attempt at standardizing the SRI field. The study will, furthermore, contribute to existing literature by discussing the Taxonomy in relation to the concept of standardization. This study thus aims to answer the following research question:

How is standardization of socially responsible investing discussed by SRI professionals at Swedish institutional investment firms?

The study investigates this research question through a qualitative study, involving interviews with SRI professionals at several major Swedish institutional investment firms. As these professionals are the designated practitioners of the EU Taxonomy, their views on the subject are highly relevant for this study. Furthermore, their particular expertise within the field of SRI makes them the most suitable party to explain and represent their respective institutional investment firms' views on the subject.

The Taxonomy will be used throughout the study to represent the current state of SRI standardization as it is among the most extensive attempts at standardization ever made. It will, moreover, be used as an example in the interviews when discussing standardization as a concept. This is because the Taxonomy is highly relevant in gaining a practical understanding of the subject, thus making the concept of standardization more tangible to the interviewees. Furthermore, as the implications of this study pertain primarily to the further development of practical SRI standardization, the implications mainly concern the future of the Taxonomy. However, the study will not focus on the Taxonomy's contents in detail, but rather on the conceptual idea behind it and its overarching features as a standardized framework.

1.4 Delimitations

In this study, four delimitations have been made. Firstly, the study will only examine the discussions of SRI professionals at institutional investment firms. The study will, therefore, not include the views of other stakeholders, such as retail investors or legislators. Secondly, the study will only cover the discussions of SRI professionals at *Swedish* institutional investment firms concerning standardization of SRI. Considering that Sweden is a market in which sustainability is highly recognized, employing SRI practices is relatively common among institutional investors in Sweden compared to many other countries (Bengtsson, 2008a). Thus, the study will not cover the views of SRI professionals and institutional investors operating in less mature SRI markets. Thirdly, the study will focus on standardization on the practical level of SRI, as opposed to the terminological, definitional, and strategic levels. Finally, the study will investigate standardization of environmental and social factors, and will thus not examine SRI professionals' discussions concerning standardization on the final aspect of ESG, namely governance.

2. Literature Review

2.1 Socially responsible investing (SRI)

Socially responsible investing (SRI), is an investment discipline that adds concerns about social, environmental, and governance (ESG) issues to the regular concerns of risk and return as determinants of equity portfolio construction (Sparkes, 2008; Eurosif, 2018). It integrates ESG factors in the selection of securities to capture long-term returns for investors, while simultaneously benefiting society by influencing the behavior of companies in a positive direction (Eurosif, 2018). Previously a niche investment discipline used only by a limited number of specialized ethical funds (Sparkes & Cowton, 2004), SRI has grown significantly in the last years to become a common practice among institutional investors in Europe (Scholtens & Sievänen, 2013; Eurosif, 2018). SRI is mostly used by institutional investors, and retail investors only make up a small fraction of the total SRI universe (Eurosif, 2012).

There are several different SRI strategies available to institutional investors. *Exclusion*, or *negative screening*, is the most popular approach (Scholtens, 2014; Eurosif, 2018). It involves excluding specific companies, sectors, or countries from the investment universe based on specific SRI criteria. Common negative screens on the sector level are alcohol, fossil fuels, tobacco, gambling, and weaponry; exclusion on the country level can, for instance, be based on international conflicts. *Positive screening*, on the contrary, is used by institutional investors to include companies that perform exceptionally well in certain SRI criteria (Humphrey et al., 2016). Positive screening is related to a strategy called *best-in-class*, which involves selecting companies with the best ESG performance in their given sectors (Capelle‐Blancard & Monjon, 2014). Finally, institutional investors can use an *engagement* or *shareholder activism* approach to influence the behavior of portfolio companies in a more sustainable direction through the use of voting rights and engagement dialogues (Scholtens, 2014). This could, for instance, involve *transitional investment cases* in which institutional investors invest in companies that are in the transition towards becoming more sustainable (Eurosif, 2018).

2.2 Heterogeneity of SRI

2.2.1 What is heterogeneity?

The entire notion of sustainability is inevitably a subjective concept (Richardson, 2009). What is perceived as sustainable in the eyes of one beholder is not necessarily perceived as sustainable by another beholder (Schwartz, 2003). In the context of socially responsible investments, this means that different institutional investors classify and measure social responsibility in heterogeneous ways (Sandberg et al., 2009; Nath, 2019). This heterogeneity entails that institutional investors apply dissimilar terminologies, definitions, strategies, and practical screening criteria in their SRI practices (Höchstädter & Scheck, 2015; Sandberg et al., 2009). SRI criteria are, furthermore, often highly subjective and arbitrary (Sethi, 2005). As institutional investors' SRI practices are determined through open-ended, informal discussions among fund managers, financial analysts, individual investors, and several other stakeholders, such practices are influenced by the various stakeholders' own ideologies, agendas, and opinions (Mackenzie, 1998; Sandberg et al., 2009).

The heterogeneity of SRI practices among different institutional investors can be explained by the notion that sustainability builds on the highly subjective concept of ethics. Ethics can be seen as a set of values, constituting moral principles that guide people in their lives (Hellsten & Mallin, 2006). Such subjective principles, when applied in a financial environment to analyze and determine ethical performance, are open to heavy contentiousness among its practitioners (Reinecke et al., 2012). For instance, Schwartz (2003) questions several commonly used negative screens, and even claims that ethical funds do not have the right to label themselves as "ethical" as a result of the highly subjective nature of the concept. Schwartz (2003) argues that, if commonly excluded industries like tobacco and alcohol are to be seen as unethical due to the damage they cause to society, investors should deem fast food – an industry contributing to substantial health issues – as unethical as well. Nath (2019) supports the argument concerning tobacco, as some investors simply do not perceive the industry to be unethical. Similarly, de Colle & York (2009) argue against the use of negative screens towards the alcohol industry, as such screens implicitly claim that no company in the industry can be socially responsible – a notion they firmly contest.

One must also consider the heterogeneity in exclusion of companies that can be classified as secondary ethical culprits, which indirectly infringe negative screens by acting as supplier, transporter, or distributor for an excluded company (Schepers & Sethi, 2003; Schwartz, 2003). Schepers & Sethi (2003) show that there is a conspicuous inconsistency in whether, and to what extent, institutional investors apply negative screening criteria for such companies. One fund might exclude tobacco producers, while simultaneously including a grocery retailer distributing the very same products. To tackle this issue, funds tend to apply percentage cut-offs that establish limits for the share of revenue that is accepted to come from unethical products. Even in this regard, however, there is heterogeneity in what share should be deemed ethical as the percentage tends to be considered arbitrary (Sparkes, 2001).

This discussion is not meant to determine whether one view among the infinite possible views investors can claim within the spectrum of SRI is correct. Rather, the discussion is about illustrating the contentiousness of deeming certain SRI practices to be ethical, which illustrates the great subjectivity of the field. Some authors argue that it should be the values of the institutional investors' customers that should determine which practices are to be deemed ethical (e.g. Revelli, 2017). However, alignment of values between customers and institutional investors is infrequently achieved in practice, as several studies highlight that private investors often disagree with funds' classifications of SRI (e.g. Berry & Junkus, 2013; Sethi, 2005; Dillenburg et al., 2003). The reason for this misalignment is that institutional investors wish to be broad in their classifications of SRI to appeal to several private investor segments, since it is not economically viable to tailor every fund to each segment of investors (Sparkes & Cowton, 2004). It is therefore clear that the heterogeneity of SRI is visible also among different private investors within a particular fund.

In addition to the evident heterogeneity in opinions on what should be excluded in the SRI analysis, there is a clear disagreement on what should be included and considered best-in-class. This disagreement is most conspicuous in the considerable divergence of ESG ratings provided by a vast variety of rating institutes (e.g. Berg et al., 2019; Chatterji et al., 2016). ESG rating agencies seek to evaluate the environmental, social, and governance performance of companies, providing investors with a relative ESG score that can easily be used to determine which companies should be included and potentially regarded as best-in-class (Escrig-Olmedo et al., 2010; Schäfer, 2005). Naturally, the development of such ESG ratings is susceptible to the same subjectivity as the SRI analysis conducted by institutional investors, since both are deeply rooted in ethical reasoning and the values of its practitioners and developers (Koellner et al., 2005; Steurer et al., 2008). Berg et al. (2019) illustrate this subjectivity in a rating context by finding significant divergence in both measurement and scope of ratings from different rating providers. In other words, ESG ratings differ in the attributes they include – such as level of carbon emissions – as well as in the way those attributes are measured. The scope divergence, in particular, illustrates the propensity of rating institutes to develop ratings around the issues they perceive as most critical, resulting in ratings that are influenced by personal and ideological biases (Entine, 2003).

2.2.2 Dimensions of heterogeneity

Heterogeneity in an SRI context is multidimensional, and certain dimensions are prone to more heterogeneity than others (Nath, 2019; Sandberg et al., 2009). Previous research commonly points to heterogeneity in four general dimensions of SRI, namely the *terminological*, *definitional*, *strategical*, and *practical* levels (e.g. Sandberg et al., 2009; Höchstädter & Scheck, 2015; Nath, 2019). Although this study will focus on the practical level of SRI, understanding the other dimensions of heterogeneity is important to be able to distinguish practical heterogeneity from heterogeneity on the other levels.

The terminological level concerns the term used to describe SRI. Heterogeneity on this level thus concerns disagreement surrounding the use of the term "socially responsible investment", as different institutional investors use different terms to describe the same concept (O'Rourke, 2003). Höchstädter & Scheck (2015) find that the terms "social investment", "impact investment", and "socially responsible investment" tend to be used near synonymously by institutional investors, but SRI tends to be associated with a greater focus on financial returns. Sandberg et al. (2009) find that, although the term "ethical investment" tends to be used extensively in SRI literature, it is a relatively unpopular way among institutional investors to describe their investment practices. There are several other terms used in academia and practice beyond the ones presented here, but a comprehensive list is not necessary for this discussion. The objective is to illustrate that the subjectivity of SRI extends beyond the practical investment process, as there is disagreement even at the terminological level.

On the definitional level of SRI, studies have shown that there is a high level of agreement between various practitioners surrounding how SRI should be defined (e.g. Höchstädter & Scheck, 2015). To clarify, the definitional level of SRI does not concern heterogeneity in defining whether a particular investment is socially responsible or not – it rather concerns how to superficially define the phrase "socially responsible investment". Sandberg et al. (2009) find that there is a consensus among institutional investors to define SRI practices by emphasizing the importance of ESG issues in their investment analyses and portfolio selections. Sandberg et al. (2009) highlight that this consensus matches the definition of SRI proposed by UNPRI, indicating that the lack of definitional SRI ambiguities is a result of a definitional standardization provided by the UN.

The strategic dimension of SRI concerns how non-financial and ethical concerns should be integrated into the investment process (Sandberg et al., 2009). More specifically, the dimension covers the various investment strategies that SRI encompasses. As mentioned earlier, popular SRI investment strategies include negative screening, positive screening, and shareholder activism. However, there are several other possible strategies available for institutional investors, such as *thematic investment* that focuses on specific SRI issues and *norms-based screening* that involves selecting companies based on their compliance with international norms (Scholtens, 2014; Eurosif, 2018). As institutional investors use this variety of strategies through a vast number of different combinations, strategic heterogeneity arises (Ivanisevic Hernaus, 2019; Sullivan, 2011). Furthermore, there is debate surrounding which of these strategies should be classified as SRI, as some institutional investors simply use negative screens to distance themselves from morally questionable sectors, while others use engagement activities to fundamentally establish and improve sustainable practices in portfolio companies (Sandberg et al., 2009). There is, therefore, a question concerning whether negative screens should even be viewed as SRI, as the use of such screens fails to influence the direction of firms to become more sustainable (de Colle & York, 2009).

The dimension of SRI in which heterogeneity is the most conspicuous is the practical level (Sandberg et al., 2009). On this level, the various strategies from the strategic dimension are translated into practical investment criteria that are used to determine which investment opportunities should be excluded, included, or qualify for dialogue in the SRI analysis. Due to the immense size of the universe of possible practical screening criteria (Schlegelmilch, 1997), this study will not provide a comprehensive list to illustrate differences in such criteria. Instead, the study refers to the multitude of previous studies that point to the vast variety of possible practical criteria to illustrate that there is great heterogeneity on the practical level (e.g. Berg et al., 2019; Dorfleitner et al., 2015; Chatterji, 2016; Sullivan, 2011). For instance, as highlighted earlier, Berg et al. (2019) find that rating institutes develop practical screening criteria that differ both in attributes and in metrics used to measure the attributes. Furthermore, as previously mentioned, there is a strong disagreement concerning which investments should fundamentally be classified as ethical and socially responsible (e.g. Schwartz, 2003). The fact that financial market actors disagree to such a remarkable extent on *what* should be measured and *how* it should be measured distinctly demonstrates the practical heterogeneity of SRI.

2.2.3 Causes of heterogeneity

The previous sections have made it clear that SRI is characterized by substantial heterogeneity on the majority of the notion's dimensions, particularly on the practical dimension. Now the study will turn to the origins of this heterogeneity, which are imperative in understanding why institutional investors apply such different and opposing screening criteria. Previous studies (e.g. Sandberg et al., 2009) frequently point to four primary causes of SRI heterogeneity, which the authors have given the following titles: *ideology*, *flexibility*, *differentiation*, and *culture*.

So far, the literature review's discussion around SRI heterogeneity has only hinted at the role that the *ideology* of various actors in the SRI analysis has on the outcome of the process. The previously mentioned arguments put forward by Schwartz (2003) concerning the ethical justification of negative screening criteria implicitly builds on differences in ethical ideologies of the criteria's developers, namely fund managers, financial analysts, individual investors in the fund, rating institutes, and several other stakeholders (Sandberg et al., 2009; McLachlan & Gardner, 2004). Since these stakeholders together will ultimately determine the institutional investor's SRI screening criteria through open-ended discussions (Mackenzie, 1998), their ideologies and objectives have significant influence in shaping the collective SRI ideology of the institutional investor (Sandberg et al., 2009). The consequence of this is that institutional investors use sustainability information in different ways (Sullivan, 2011). This naturally implicates differences in the practical SRI criteria applied among different institutional investors, creating heterogeneity in the SRI universe.

Ideological differences between institutional investors evidently originate from the ideologies of people inside the organizations. Private investors, naturally, also have heterogeneous ideological and ethical standpoints. This means that the institutional investors' customers have varying classifications of SRI, indicating a need for the institutional investors to adapt their perceptions of SRI to their customers' personal values (Schueth, 2003). This adaptation will contribute towards increased heterogeneity of SRI in the financial market, as differences in SRI classifications and criteria exist even within a single institutional investor's organization. The study will refer to the institutional investor's practice of employing multiple and different SRI classifications as *flexibility*. Previous studies point to two strategies that enable such flexibility. Firstly, the institutional investor can employ a values-based approach, in which asset management practices are adapted to the customer's view of sustainability

(Nath, 2019). Secondly, the institutional investor can provide multiple, different fund products of sufficient quantity to allow customers to choose funds that align with their personal values (e.g. de Colle & York, 2009; Sullivan, 2011). For instance, if a customer's ideology involves an acceptance of investments in tobacco, the institutional investor could provide a fund that matches this ideology. In contrast to the former strategy, this approach does not allow for full adaptation of SRI practices to the customer, as institutional investors can only provide a finite number of funds (Revelli, 2017). Nevertheless, both strategies ultimately contribute to increasing the heterogeneity of SRI practices in the market.

The third cause of SRI heterogeneity is the simple fact that institutional investors are commercial actors with incentives to become *differentiated* from their competitors (Sandberg et al., 2009; Nath, 2019; O'Rourke, 2003). By establishing their own images within the ethical investment universe, institutional investors can differentiate from the flock and attract investors to their funds (O'Rourke, 2003), providing the funds with a strong competitive advantage (Nath, 2019). In practice, differentiation is achieved through establishing an ideology that reflects the values of a certain market segment (Beal et al., 2005), or by being flexible to provide customers with a variety of funds that correspond to their heterogeneous values (de Colle & York, 2009). Regardless of the path to differentiation, the commercial context of institutional investors naturally leads to different SRI practices among different firms, contributing to heterogeneity in the field.

The fourth and final cause of heterogeneity in the SRI universe is differences in *culture* between different countries (Bengtsson, 2008b). Several previous studies point to the influence of cultural differences in producing a variety of dissimilar national SRI practices (e.g. Lozano et al., 2006; Louche & Lydenberg, 2006; Louche, 2004). Scholtens & Sievänen (2013) find that, because different cultures adhere to different moral values and consider different practices acceptable, SRI practices of institutional investors will differ between countries. This relationship applies even when comparing SRI practices between countries with relatively similar cultural values. For instance, Bengtsson (2008a) finds that, although Scandinavian countries share several cultural commonalities, the criteria and principles applied in the SRI analysis differ significantly between different institutional investors in these countries. For instance, alcohol is more commonly excluded in Sweden compared to Norway and Denmark, while tobacco is a more common negative screen in Sweden and Norway compared to Denmark. These differences in ethical perceptions can ultimately be seen as ideological differences, causing some overlap with the aforementioned ideological cause of SRI heterogeneity. However, as an individual's ideology is shaped by its cultural and institutional context (Powell & DiMaggio, 2012), the ideological cause of heterogeneity is rather partly influenced by culture. Nonetheless, cultural differences between different countries have significant effects in establishing heterogeneity of SRI practices.

2.3 Standardization of SRI

2.3.1 What is standardization?

Standardization, as defined by Timmermans & Epstein (2010), is the consolidation of practices and norms into a uniform standard. It commensurates heterogeneous elements into common metrics, thus reducing ambiguities associated with those elements by cutting down the number of alternative courses of action (Espeland & Stevens, 1998; Timmermans & Epstein, 2010). Standardization and heterogeneity are concepts residing on opposite ends of the heterogeneity continuum, as standardization causes homogeneity in a given field. Standards are often established and backed up by external bodies, such as governments and state organizations (Timmermans & Epstein, 2010).

In this study, standardization theory will be used in the context of SRI. In the words of Sandberg et al. (2009), standardization in an SRI context is *"a process leading to, or a scenario where, all parts of the SRI community use similar terminology and definitions, and also employ similar strategies and criteria"*. Nath (2019) explains that standardization of SRI creates boundaries that facilitate the articulation of what constitutes a sustainable investment. Standardization is, therefore, a process that makes it easier for investors to classify and measure SRI, reducing the inherent heterogeneity of the field. As evident from the definition presented by Sandberg et al. (2009), standardization of SRI should commensurate the field in all four of its dimensions. In stark contrast to this, the reality of today's SRI field is, as previously mentioned, characterized by immense heterogeneity. Although the UNPRI has partially standardized the definitional level of SRI, the other levels are far from achieving a consensus among SRI practitioners in the financial markets (Sandberg et al., 2009). The practical level, where SRI heterogeneity as previously mentioned is most conspicuous due to exceedingly high levels of subjectivity, is particularly far away from commensuration of opinion.

The practical level's substantial heterogeneity is the result of market-led classifications. That is, as the market is allowed to freely classify companies as sustainable or unsustainable, a vast heterogeneity of classifications arises (Sandberg et al., 2009). Similar to how a market economy allows market actors to set prices freely, market-led SRI allows institutional investors to develop their own classifications within the SRI field (Revelli, 2017; Möslein, & Sørensen, 2018). The opposite of this market-led view of SRI is *top-down* standardization, through which SRI classifications instead are determined by a higher regulatory authority (Sandberg et al., 2009), such as the EU or the UN.

2.3.2 The EU Taxonomy

Despite the great heterogeneity on the practical level of SRI, the EU is currently carrying out one of the most deliberate and comprehensive attempts at top-down standardization of the practical level of SRI, called the EU Taxonomy. The Taxonomy is developed by a Technical Expert Group (TEG), a group of sustainability experts elected by the EU that includes actors from the public and financial sectors (European Commission, 2020c). According to the TEG, the Taxonomy is "*a classification tool to help investors and companies make informed investment decisions on environmentally friendly economic activities*" (TEG, 2019b). More specifically, the Taxonomy consists of a classification system, involving detailed criteria and binary classifications of which economic activities should be deemed sustainable in the eyes of investors. To be classified as sustainable, an economic activity must contribute substantially to at least one of the six environmental objectives defined by the EU, and do no significant harm to the other objectives (TEG, 2019b). The six objectives are climate change mitigation; climate change adaptation of economic activities to become more climate-resilient; sustainable use and protection of water and marine resources; transition to a circular economy; waste prevention and recycling; pollution prevention and control; and protection of healthy ecosystems. For each economic activity, technical screening criteria have been developed to establish requirements for determining if the activity substantially contributes and does no significant harm to the objectives. Sustainable economic activities can be divided into three main categories: *low-carbon activities* that have low greenhouse gas emissions; *transition activities* that are not sustainable as such but which can make a substantial contribution to climate mitigation and adaptation because they emit significantly less than the industry average; and *enabling activities* that enable reductions of emissions in another sector (TEG, 2019b).

From an institutional investor's perspective, the Taxonomy can be used to classify and measure sustainability performance in a standardized way through common metrics, thus reducing the heterogeneity of SRI practices among institutional investors in the EU. However, the Taxonomy is not mandatory for institutional investors to use in their SRI analyses; it is rather a tool that can be used to facilitate the identification of companies that contribute to a sustainable transition (TEG, 2019b). Through this tool, the EU seeks to support investors by making it easier to allocate capital to sustainable corporations, preventing misallocation towards companies exhibiting greenwashing practices, and thus facilitating the achievement of the goals set out by the United Nations' Agenda. In its current state, however, the Taxonomy is rather limited, as it only covers climate issues for a selected number of industries, effectively disregarding important social issues and controversial environmental factors such as nuclear power. The European Commission is, on the other hand, currently exploring future extensions of the Taxonomy towards social issues, and is planning to add more economic activities in the future (European Commission, 2020b).

As the present study will not focus on the details of the Taxonomy, a comprehensive account of various technical screening criteria will not be provided. Although not necessary for the purpose of this study, additional Taxonomy material can be found in Appendix 1.

2.3.3 The difficulty of standardization

In some fields, subjectivity and individual values can create such substantial levels of heterogeneity that standardization can become resisted by its designated practitioners (Timmermans & Epstein, 2010). Previous research concerning the concept of standardization, conducted before the launch of the Taxonomy, has explained that the heterogeneity inherent in SRI makes standardization difficult to achieve in practice (e.g. Sandberg et al., 2009; Berry & Junkus, 2013). Sandberg et al. (2009) meticulously discuss the difficulty of standardization of the SRI field and provide several reasons explaining why it may not be possible to standardize the field, as well as why it may not be desirable from the perspective of institutional investors. As the difficulty of standardization of SRI originates from the field's inherent subjectivity and heterogeneity, Sandberg et al. (2009) explain that the reasons behind the difficulty are the same as the factors causing the heterogeneity, namely *ideology*, *flexibility*, *differentiation*, and *culture*. Institutional investors will not automatically overcome their ideological differences, since this would require them to compromise their own ethical views in favor of a standard view. The same applies to individual investors whose capital is managed by institutional investors, as they will not change their ethical standpoints simply because a standardized classification system presents a contrasting opinion. In other words, the importance for institutional investors of being flexible in their SRI classifications and criteria does not perish as standardization is implemented. Furthermore, the commercial market condition of institutional investors creates an incentive to differentiate from the competition as they gain competitive advantages from such differentiation. Hence, institutional investors are rewarded for implementing SRI differently, meaning that they benefit from resisting and opposing SRI standardization. Finally, it would be utopian to believe that cultural differences in SRI practices and ethical values could be overcome simply by implementing a standardized system. Taken together, all these factors illustrate a central point made by Sandberg et al. (2009), and several other previous studies (e.g. Friede, 2019; O'Rourke, 2003): the extensive heterogeneity of SRI makes standardization unlikely to be possible or desirable in practice.

However, Sandberg et al. (2009) continue this discussion by stating that top-down standardization could overcome these issues, as it did on the definitional level when standardized by the UNPRI. This is because, once such a standardized framework is implemented, institutional investors become incentivized to comply with the framework to display their sustainable investment practices. Applied to the practical level, this reasoning would conjecture that standardization implemented through the EU Taxonomy could facilitate in overcoming the difficulties of SRI standardization. Revelli (2017), on the other hand, proposes that SRI should be market-led as institutional investors should be allowed to act according to their own ethical goals. This view is shared by Schoenmaker (2018), who argues that the Taxonomy – a top-down standardization – hinders innovation. The argument builds on the fact that the Taxonomy is developed by a single entity and is highly influenced by the views of politicians, who do not have a better perception of what should be classified as sustainable than institutional investors. In fact, institutional investors have incentives to understand the long-term potential of companies to determine their attractiveness from an investment perspective, which involves knowing what should be deemed sustainable in the future. Thus, Schoenmaker (2018) argues that institutional investors "*are best placed to see in what way companies are prepared for the transition to a sustainable economy*", supporting the view that the practical level of SRI should be market-led, as it has been until the launch of the Taxonomy. It is, in other words, through the competitive dynamic between institutional investors that the true classifications of socially responsible investments should arise, according to Caldecott (2019).

3. Analytical Framework

In order to explain how SRI professionals at institutional investment firms discuss standardization of SRI, the study will first establish an understanding concerning whether SRI is discussed as a heterogeneous concept. To accomplish this, the study will examine whether SRI professionals at institutional investment firms agree with, and whether their investment firms conform to, the causes of heterogeneity presented in the literature review. That is, the study investigates if the institutional investors have their own *ideological* standpoints concerning SRI practices; if they wish to be *flexible* in their SRI practices; if they *differentiate* their business from competitors through their SRI practices; and if *culture* has an effect on their SRI practices. Determining these aspects is fundamental to the study, as the rationale regarding standardization presented by the institutional investors will depend on these factors of heterogeneity (Sandberg et al., 2009).

After determining whether the SRI professionals discuss SRI as a heterogeneous concept, the study will use the analytical framework presented below to understand how the professionals discuss standardization. The framework is divided into three aspects, together providing a comprehensive account of the professionals' discussions of standardization of SRI. All three aspects will be connected to the professionals' discussions concerning the heterogeneity of SRI to gain an understanding of the relationship between heterogeneity and standardization.

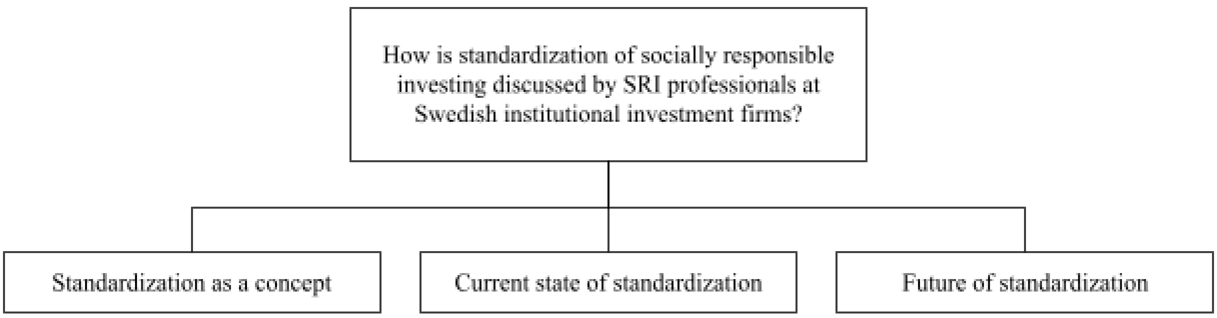

Figure 1: *Analytical Framework*

The first aspect of the framework investigates how SRI professionals discuss standardization *as a concept*; that is, whether they and their respective investment firms are open to standardization as an initiative, and whether they believe such an initiative is a reasonable idea in practice. While some authors suggest that standardization of SRI is unlikely to be attainable in practice as a result of the inherent heterogeneity of SRI (e.g. Friede, 2019;

Sandberg et al., 2009), others suggest that standardization initiatives are nevertheless necessary to combat greenwashing (e.g. Bowen & Aragon-Correa, 2014). This aspect of the framework thus examines whether standardization as a concept is perceived positively by institutional investors.

The framework's second aspect examines how the professionals discuss the *current state of standardization*. Being among the most comprehensive attempts at standardization on the practical level of SRI, the Taxonomy serves the purpose of explaining the current state of standardization exceedingly well. This aspect of the framework will therefore primarily focus on the SRI professionals' discussions concerning the Taxonomy, involving their views regarding how well the Taxonomy performs as a standardized framework on an overarching level. As this study does not focus on the Taxonomy's contents in detail, discussions surrounding specific technical screening criteria are beyond this study's purpose. Discussions concerning the current state of standardization are important to the study, as institutional investors may approve of the idea of standardization, but not the current state of standardization. Several authors have, in fact, directed criticism towards the Taxonomy's current state (e.g. Caldecott, 2019; Möslein, & Sørensen, 2018). It is, therefore, important to understand how the Taxonomy is discussed in relation to standardization as a concept.

The third and final aspect of the framework concerns the *future of standardization*. More specifically, the aspect considers how SRI professionals discuss the direction in which SRI should move in the future: should the concept become more standardized, or should it remain to the heterogeneity it has been characterized by in the past? This aspect of the framework is grounded in the other two aspects. Firstly, the professionals' discussions surrounding the future of standardization depend on their discussions concerning standardization as a concept. This is because, if the SRI professionals appreciate standardization as an initiative, they will likely believe that SRI should become more standardized in the future. Secondly, the future development of the Taxonomy is contingent on the professionals' discussions surrounding flaws in the Taxonomy's current state, as such flaws are likely to shape the professionals' beliefs about potential future changes to the Taxonomy.

4. Method

4.1 Research design

For the purpose of answering the research question, a qualitative study has been conducted, involving interviews with Swedish SRI professionals at eight different institutional investment firms. Bell et al. (2018) explain that qualitative studies are suitable in contexts where there is a need to understand people by viewing reality from their perspectives. Through these perspectives, researchers can interpret and understand the views of the people being studied. As the research question of the present study aims to explain how SRI professionals at institutional investment firms discuss standardization of SRI, understanding reality from the eyes of these professionals becomes exceedingly important. Thus, the underlying philosophy used in this qualitative study is the notion of interpretivism – the idea that reality is a social construction, created through each individual person's own understandings and interpretations (Klenke et al., 2008). As the literature review indicated that SRI is a subjective concept, the empirical data will naturally be susceptible to subjectivity from the point of view of the people being studied as well. Thus, a qualitative interpretive approach is highly relevant for the purpose of answering the research question.

In contrast to this qualitative approach, an alternative method of research could be to quantitatively assess institutional investors' willingness to achieve standardization of SRI. In other words, the study could have measured *how* willing institutional investors are to standardize through quantitative measurements. However, this approach would merely provide a general figure and would neglect the reasoning that explains the institutional investors' views on the topic. While quantitative studies attempt to generalize their findings, qualitative studies seek to understand the values and beliefs of their respondents (Bell et al., 2018). As such, a qualitative approach is more suitable for the purpose of this study, as the study aims to understand the discussions of SRI professionals concerning standardization of SRI and their reasoning concerning the inherent heterogeneity associated with the notion.

The qualitative approach taken by this study involves abductive reasoning (Bell et al., 2018). By applying such reasoning, the authors could iteratively collect empirics and theory throughout the duration of the study, and thus continuously adapt the theoretical foundation to empirical findings. This would not have been possible by employing deductive or inductive approaches (Mantere & Ketokivi, 2013).

4.2 Data collection

4.2.1 Selection of respondents

The selection of respondents was made with the purpose and research question in mind. As the purpose of the study is to examine how SRI professionals discuss standardization of SRI, it is imperative to the study to gather the perspectives of several different SRI professionals to establish a nuanced discussion. To accomplish this, respondents have been selected to include SRI professionals employed at several different institutional investment firms. Furthermore, as several points of the analytical framework pertain to the general standpoints and characteristics of the SRI professionals' respective institutional investment firms, only one SRI professional per firm was required as they could represent the firm's standpoints and explain its characteristics. The study has, therefore, prioritized multiple perspectives of SRI professionals at different firms over multiple perspectives of SRI professionals within the same firm.

As SRI professionals are the designated practitioners of standardized SRI frameworks, they are the most qualified respondents to this study. They are, moreover, the most knowledgeable in the field of SRI within their respective institutional investment firms, allowing them to act as representatives for the institutional investor's general standpoints. Thus, institutional investors were selected on the basis that they had SRI professionals employed in their organizations. Similarly, the selection of institutional investors required the companies to work with sustainability in their investment practices. This was ensured by only selecting companies that were signatories of the UNPRI, an international network of institutional investors contributing to the development of a more sustainable global financial system (UNPRI, n.d.). The institutional investment firms were also selected to comprise a variety of different institutional investor types to contribute towards increased generalizability of responses. To that end, the institutional investors included fund companies, banks, asset management firms, as well as financial advisory companies. These firms were, moreover, of varying sizes to contribute further to generalizability. Finally, as the study is limited to the Swedish market, the companies selected were all geographically situated in Sweden.

The SRI professionals selected within these firms included a great variety of different positions pertaining to the SRI profession. These included ESG analysts, sustainability managers, sustainability coordinators, and even professionals specifically responsible for the integration of the EU Taxonomy in the institutional investors' SRI analyses. Several of the professionals were, furthermore, selected based on their connection to the specific topic of SRI standardization.

Although generalizability is important in determining how Swedish SRI professionals discuss standardization, respondents were not selected to include SRI professionals from as many institutional investors as possible. Rather, through the above-mentioned criteria, the authors selected institutions with SRI professionals that were best fit to answer the research question. In fact, had the study attempted to investigate a large population involving a substantial number of smaller institutional investment firms, a potential limitation could arise as such firms tend to not employ designated SRI professionals. In such firms, SRI practices are instead often handled by fund managers and regular financial analysts. As the present study aims to capture the views of SRI professionals employed within the firms, an approach involving non-SRI professionals would be contradictory to the purpose of the study. As such, the authors deemed it reasonable to instead determine the size of the sample through a dynamic process of theoretical saturation (Bell et al., 2018). This means that the number of institutional investors included in the sample was determined as the study progressed, and the process of data collection was thus gradually reduced in intensity as the authors increasingly perceived adequacy in the responses collected.

4.2.2 Interviews

As standardization on the practical level of SRI is a relatively new concept in the financial markets, in-depth interviews were conducted using a semi-structured approach to allow respondents a great deal of leeway in their responses while simultaneously maintaining a general structure (Bell et al., 2018). Such leeway was important as it provided the interviewees with the opportunity to discuss aspects of standardization that they viewed as important. Furthermore, through this approach, the authors were allowed to ask follow-up questions and uncover certain topics that were important in answering the research question, supporting the abductive reasoning applied throughout the study's progression. Follow-up questions also allowed the interviewees to elaborate their answers (Kvale, 1994), supporting the research question through more exhaustive discussions. To maintain structure in the interviews, an interview guide was developed (Appendix 2) using the analytical framework presented earlier as a base. The interview guide began by examining SRI heterogeneity and subsequently continued to explore the three aspects of the framework. Since the interviewees are employed at a variety of different types of institutional investment firms, certain questions in the interview guide were adapted to fit the context of each type.

Eight interviews with SRI professionals at eight different institutional investment firms were conducted. To make the interviewees more comfortable in speaking freely and authentically, the names of the institutional investors and interviewees were anonymized. The study will instead refer to institutional investors as, for instance, “Institutional Investor A” and to interviewees by their roles, such as “ESG-analyst”. As a result of the Covid-19 pandemic, all interviews were conducted and recorded through the online communication platform Microsoft Teams. Although challenges involving technical difficulties can arise when conducting interviews using such web conferencing technologies (Archibald et al., 2019), the authors did not experience any technology-related issues during the interviews. The length of the interviews was between 30 and 68 minutes, providing the authors with sufficient empirical data to answer the research question.

The table below showcases the conducted interviews. Institutional Investors A, B, F, G, and H are fund companies of varying sizes and with different degrees of asset management services provided. Institutional Investor C is a leading financial advisory and wealth management firm. Finally, Institutional Investors D and E are branches of two different major Swedish banks, offering funds as well as asset management services.

Company	**Position**	**Date**	**Length**
Institutional Investor A	ESG Analyst	2021-02-24	52 min
Institutional Investor B	ESG Analyst	2021-03-04	52 min
Institutional Investor C	Head of Sustainability	2021-03-12	47 min
Institutional Investor D	Project Lead EU Sustainable Finance	2021-03-17	53 min
Institutional Investor E	ESG Analyst	2021-04-01	68 min
Institutional Investor F	Head of ESG	2021-04-14	64 min
Institutional Investor G	Sustainability Coordinator	2021-04-15	51 min
Institutional Investor H	Sustainability Manager	2021-04-16	30 min

Table 1: *Conducted Interviews*

4.2.3 Data analysis

The interviews were recorded and continuously transcribed throughout the data collection process. The transcribed material was translated into English, amounting to approximately 60 pages of empirical data. In line with the abductive reasoning applied throughout the study, the process of transcription was conducted directly after each interview in order to identify potential additions to the literature review. The authors were keen to ensure that the transcribed data represented the interviewees' own words and formulations.

A thematic analysis was subsequently conducted to analyze the empirical data, which involves searching for and identifying themes (Bell et al., 2018). As outlined by Ryan & Bernard (2003), themes can be identified by using theory-related material as a springboard. The present study used this approach by applying the analytical framework as the initial lens through which central themes were identified. Additional themes were identified by searching for similarities, differences, and repetitions in the interviewees' discussions, as proposed by Ryan & Bernard (2003). Together, these themes have shaped the structure of the empirical section of the study through selected quotes from the empirical data. The quotes were selected to represent the common opinion of the interviewees. Quotes that reflected one or two interviewees' discussion were only selected in case of major differences in answers, in order to contribute to the general discussion.

4.3 Method discussion

The authors have been committed to achieving high trustworthiness in the present study. This has been ensured by evaluating the study in accordance with the four aspects of trustworthiness in qualitative research presented by (Bell et al., 2018), namely credibility, transferability, dependability, and confirmability. Credibility has been ensured by anonymizing the respondents, which significantly reduces the risk that they withhold important information. Furthermore, the interview transcripts were first analyzed individually to gain an understanding of each interviewee's response; subsequently, the transcripts were analyzed together to examine similarities and differences in the responses. This has further increased the credibility of the study.

The study's transferability is considered to be lower, which is a general weakness of qualitative studies (Bell et al., 2018). Transferability has also been reduced as a result of the geographical delimitation made by the study. As the study was conducted in the Swedish financial market, findings concerning how SRI professionals discuss standardization have limited transferability to other geographical markets. However, the study provides insights into how such discussions could unfold in practice, which can be used by future studies examining the same subject in other geographical contexts. An additional critique that could be raised concerning transferability is the small sample of SRI professionals. As previously mentioned, however, because the purpose of the study was to specifically investigate discussions of SRI professionals, small institutional investors without such employees were not included in the selection of respondents. This motivates a smaller sample because only institutional investors that employ SRI professionals were included. Moreover, the sample includes institutional investment firms with varying sizes and business models, as well as SRI professionals with a great variety of different roles, which further enhances the transferability and trustworthiness of the study.

Dependability in the study is considered to be high, even though qualitative studies generally are difficult to replicate (Bell et al., 2018). The study has high internal reliability, as both members of the research team analyzed the empirical data together, and the members' perspectives were combined to develop conclusions. Finally, as for confirmability, the authors have consistently been impartial throughout the study. For instance, no interviewee's perspective was prioritized over the perspectives of other interviewees when analyzing the data.

5. Empirics

5.1 Heterogeneity

The SRI professionals generally discuss SRI as a subjective concept that is open to much interpretation by financial market actors. For instance, the ESG Analyst at Institutional Investor B argues that *"in the same way as there is a great variety of opinions concerning what a good investment is from a financial standpoint, there is great disagreement surrounding what a sustainable investment is"*. Institutional Investor F's Head of ESG agrees with this line of reasoning and mentioned that *"it is very arbitrary how you define sustainability in investments"*. This subjectivity is particularly conspicuous in the SRI professionals' discussions about the decision to invest in businesses that perform relatively poorly on sustainability issues today, but are in a transition towards becoming more sustainable. The Sustainability Manager at Institutional Investor H explains this with an example:

> *"If we take SSAB as an example, which is a company that stands for 13% of Sweden's carbon emissions while simultaneously working thoroughly to become completely carbon-free, should you invest in them or exclude them?"* - Sustainability Manager, Institutional Investor H

This example illustrates the subjectivity involved in environmental aspects of SRI, but the institutional investors frequently mention that an SRI analysis concerning social factors is susceptible to even greater subjectivity. The Project Lead at Institutional Investor D mentions that, although social issues are relatively unambiguous on a broad level when analyzing whether a company follows international norms and conventions, they are open to substantial heterogeneity in analysis on a more detailed level. The measurement of performance within social factors tends to be relatively intangible compared to performance measures within climate aspects. For instance, the Sustainability Coordinator at Institutional Investor G explains that *"it is relatively easy to measure carbon emissions compared to many social factors"*, and the Head of Sustainability at Institutional Investor C adds that *"environmental aspects are often based on scientific data, while social factors are much more open to discussion"*.

Although the SRI professionals generally agree that, overall, SRI is a subjective concept, some question whether the notion is, or should be, viewed as subjective. The ESG Analyst at Institutional Investor A mentioned that *"it is not difficult to determine whether an investment is sustainable or not when it comes to the fundamental pillars of sustainability"*, illustrating that the fundamental aspects of SRI might be less open to interpretation. Institutional Investor E's ESG Analyst extends this argument further:

> *"I don't think there is that much subjectivity in sustainability. For instance, we know what needs to be done within the climate aspect of sustainability. [...] In general, I would say that sustainability is quite objective in terms of what is positive and negative for society."* - ESG Analyst, Institutional Investor E

Thus, although the SRI professionals generally discuss SRI as a subjective concept, some evidently argue that the concept is not entirely subjective. A similar rationale is applied by the professionals when discussing the heterogeneity of SRI in the Swedish market, as there is agreement among the professionals that there are some dissimilarities in practices, yet the overarching strategic approach to SRI seems to be rather homogeneous. They explain that, as SRI has become a common practice among Swedish institutional investors, the strategic level of SRI has evolved towards homogeneity. Institutional Investor C's Head of Sustainability comments on the strategic homogeneity:

> *"I would say that institutional investors view different strategies for working with sustainability in similar ways. That is, we agree that you can exclude companies, integrate sustainability in investment decisions, and work with active dialogues."* - Head of Sustainability, Institutional Investor C

Despite this strategic homogeneity, the implementation of SRI on the practical level seems to exhibit a degree of heterogeneity. Several SRI professionals highlight that heterogeneity in SRI practices is primarily found in conjunction with transitional investment cases, namely when analyzing companies that are in the transition towards becoming more sustainable. The disagreement in this regard boils down to when it is acceptable to invest in companies that currently perform poorly on sustainability issues, and when such companies should be excluded in the initial phase of the SRI analysis. Nevertheless, some homogeneity can be found on the practical level as well. For instance, the Sustainability Coordinator at

Institutional Investor G mentions that the *"industries and sectors that are excluded have become somewhat standard in Sweden"*, and the ESG Analyst at Institutional Investor E explains that *"Swedish fund companies generally have similar exclusion criteria"*.

5.1.1 Ideology

Ideology is not discussed as a strong cause of practical SRI heterogeneity. Although most SRI professionals explained that their respective investment companies have their own analytical frameworks for SRI, these frameworks are not seen as ideologies. The ESG Analyst at Institutional Investor E discusses the role of ideology as follows:

> *"What we try to do is to find strong arguments for how companies affect society, instead of taking our own subjective standpoints in moral issues."* -
> ESG Analyst, Institutional Investor E

The analyst continues this argument by mentioning that their investment firm used to invest in companies in the gambling industry, but as they analyzed the industry further, they found that insufficient attempts had been made towards social responsibility, and thus chose to exit the industry. This example illustrates a common point made by the institutional investors: the selection of companies is made through their own analyses based on facts and is not primarily dependent on the ideological positions of the institution as a whole nor of individual employees. For instance, the ESG Analyst at Institutional Investor B explained that *"although we have a strong sustainability focus in our funds, I would not describe it as an ideology"*. There are, of course, certain industries that are excluded immediately due to ideological reasons; for example, Institutional Investor G opposes investments into cannabis. But such ideological standpoints are described as ubiquitous among Swedish institutional investors, and are thus rather viewed as hygiene factors in the financial industry than as personal ideological positions.

5.1.2 Flexibility

The wish to be flexible in SRI criteria in different fund offerings is not remarkably present among the institutional investors. For instance, Institutional Investor B has the same criteria for all its funds. Institutional Investors D and G follow a similar approach, although they allow fund managers to apply additional negative screens to their individual funds. A different approach is taken by Institutional Investor A, as they apply different criteria in funds pertaining to specific countries in order to adapt to cultural differences. Overall, however, flexibility in SRI practices among different fund offerings is not described as a critical desire among the institutional investors.

A similar line of reasoning is provided by the institutional investors that provide asset management practices for specific customers. Naturally, such practices allow for greater adaptation to the customers' personal values. However, both the SRI professionals at Institutional Investor D and E explain that this does not necessarily occur in practice. The ESG Analyst at Institutional Investor E explains:

> *"We would never invest in a company that we don't believe in just because a customer wants us to. Then the customer has to look for another asset manager."* - ESG Analyst at Institutional Investor E

The Project Lead at Institutional Investor D extends this argument by mentioning that their customers seldomly have specific requirements for their investments. In fact, the customers' values are often in line with the SRI criteria of Institutional Investor D. Thus, customers do not require the firm to adapt its SRI practices as they are satisfied with the firm's sustainability work. As a financial advisory firm, Institutional Investor C naturally provides more adaptation to its customers' values, and they have even *"avoided developing classifications of sustainable investments to allow customers to decide for themselves"*, according to the firm's Head of Sustainability.

5.1.3 Differentiation

Overall, the institutional investors describe SRI as a way of differentiating themselves from other investment companies. Differentiation is achieved by establishing a stronger socially responsible image relative to competitors, which is primarily attained through stronger performance within company dialogues and a distinct approach to transition cases. The ESG Analyst at Institutional Investor B explained their differentiation as such:

> *"We are in the forefront in customer surveys concerning performance in socially responsible investments. [...] I believe that it is an advantage that we have profiled ourselves to work extensively with shareholder activism and engagement dialogues."* - ESG Analyst, Institutional Investor B

Similarly, the ESG Analyst at Institutional Investor E stated that *"what we compete and differentiate ourselves with is not that we have different classifications [within SRI], but rather that we make a case why we do it better than others"*. Differentiation is therefore achieved by performing better within SRI, and in particular within the institutional investors' strive to improve sustainability performance in their portfolio companies. As a result of this differentiation, the institutional investors reach out to a greater number of potential customers, including more sustainability-conscious customer segments.

Although most institutional investors differentiate themselves through their individual approaches to transition cases and engagement dialogues, some SRI professionals claim that such differentiation is less important relative to other means of achieving competitive advantages. For instance, the ESG Analyst at Institutional Investor E points out that SRI becomes a competitive advantage only after financial returns have been considered:

> *"Customers choose us based on our sustainability work, but if we would have provided funds that underperformed the market, we would not have too many customers. [...] If we provide the same return as competitors over a 5 year period, we could absolutely win the customer based on our sustainability work."* - ESG Analyst, Institutional Investor E

This line of reasoning illustrates that SRI can serve as differentiation, but the primary differentiating factor providing the institutional investor with a competitive advantage is their ability to generate financial returns for their customers. Only after this factor has proven sufficient in the customers' eyes, sustainability becomes a factor of differentiation. The Sustainability Coordinator at Institutional Investor G provides an even more skeptical viewpoint concerning SRI as a differentiating factor for institutional investors:

> *"Today it is rather a hygiene factor to consider sustainability in investments than a competitive advantage. I think you would quickly be left out if you would not consider it, but you don't become top of mind by considering it."* - Sustainability Coordinator, Institutional Investor G

5.1.4 Culture

All institutional investors recognized the impact of national culture and norms on SRI practices. They highlighted that their approaches to classifying socially responsible investments are contingent on the ethical norms of the Swedish society. Several SRI professionals attributed this contingency to the early SRI adoption of the Church of Sweden, and in particular the church's role in establishing the foundation of SRI practices in the Swedish financial market. Although the church does not control the classifications of socially responsible investments today, *"it played an important part in establishing norms and values in the area"*, as described by the Sustainability Coordinator at Institutional Investor G.

The SRI professionals frequently mention that these cultural factors will inevitably create heterogeneity in SRI practices among institutional investors in different countries. For instance, the Project Lead at Institutional Investor D explained that *"the Nordic countries, the Netherlands, and France have traditionally had the strongest focus on sustainability in Europe"*, and that this, in turn, creates differences in SRI compared to countries in which SRI is less mature. However, the SRI professional continues by mentioning that *"although the Nordic countries were early in adopting [SRI], others are beginning to see the importance of it as well"*. As a result, other European countries are becoming more similar to the Nordic countries. The ESG Analysts at both Institutional Investor A and E presented a similar view. They argued that, because the UN Agenda is a global agreement among all UN countries, there are similarities among different countries in their values and principles within sustainability. In other words, although different national cultures have different values, the UN Agenda creates harmonization of sustainability among nations, implicating similar fundamental values concerning SRI among institutional investors across a diverse set of national cultures.

5.2 Standardization

5.2.1 Standardization as a concept

All institutional investors express positive attitudes towards standardization in an SRI context. The SRI professionals explain these attitudes by highlighting that several benefits can be obtained by standardizing SRI – benefits that pertain to the financial markets on a broad level as well as for their customers. The primary benefit expressed by the SRI professionals is that a consensus surrounding the concept of SRI is required in order to move away from the concept's ambiguous and subjective past. The Head of ESG at Institutional Investor F explains the need for standardization through the following analogy:

> *"Everyone must run in the same direction. If a marathon wouldn't have observers and a confined path, some people would cheat."* - Head of ESG, Institutional Investor F

The analogy illustrates that, without a clear consensus, SRI can be anything and companies can "cheat" by employing greenwashing practices, which is made possible by exploiting the ambiguity of SRI. Therefore, the SRI professionals explain, standardization is necessary in order to achieve the desired transition towards a more sustainable world. Standardization provides the financial market and its incumbent institutional investors with a framework that facilitates contribution towards this endeavor, as they are provided with tools to steer their capital towards truly sustainable corporations. Such tools also benefit the institutional investors in their analyses, as they *"allow for comparisons of companies' sustainability performance and establish demands on when they are allowed to call themselves sustainable"*, according to the ESG Analyst at Institutional Investor A. As a result of increased standardization, the entire financial market becomes characterized by a stronger focus on social responsibility in investments, transitioning the concept into the mainstream:

> *"I think that standardization is necessary going forward to make [SRI] mainstream, turning it into something everyone integrates into their investment processes."* - Project Lead EU Sustainable Finance, Institutional Investor D

A positive aspect of standardization acknowledged by several SRI professionals is the benefits from the perspective of their customers. The Sustainability Coordinator at Institutional Investor G explained that the lack of SRI standards makes it *"incredibly difficult to choose funds"* as a customer. Institutional Investor C's Head of Sustainability extends this argument further:

> *"Standardization is needed in the market to make [SRI] more accepted by individuals. [...] Today, people cannot be entirely sure that a sustainable fund actually is sustainable, but they may still invest in it due to lacking alternatives and insight."* - Head of Sustainability, Institutional Investor C

As a result of this, the SRI professional explains that standardization is necessary in order to ensure people that the funds, stocks, and other financial assets they invest in are, in fact, sustainable. However, the SRI professionals point out that this can only work in practice if the data and classifications that constitute a standardized framework are correct. This calls into question whether a top-down standardization, where SRI classifications are determined on a regulatory level, can work in practice when the financial market is not in control over the classifications. In other words, should SRI as a concept be controlled by a higher authority? There seems to be agreement among the institutional investors that top-down standardization is constructive, and even necessary, for the development of SRI. The Sustainability Manager at Institutional Investor H explains it as follows:

> *"I think [top-down standardization] is a must if you want effects when attempting to steer capital. That's what the EU is doing, they steer the capital when they notice that it cannot steer itself."* - Sustainability Manager, Institutional Investor H

The Head of ESG at Institutional Investor F adds that *"you should keep companies far away from setting classifications"* as they can influence classifications of SRI in their preferred directions. Institutional Investor E's ESG Analyst notes that, in a top-down standardization, the market's perspective should always be considered as financial market actors are well-positioned to understand and discover innovative solutions that assist in the transition towards a more sustainable world.

As mentioned previously, a considerable number of SRI professionals mentioned that their respective investment firms are differentiated through their specific approaches to SRI, particularly with regards to transition cases and engagement dialogues. However, they do not perceive a necessary contrast between their differentiation and standardization. As long as a standardized framework allows them to maintain their competitive advantages by permitting them to do more sustainability work than a standardized framework requires, competitive advantages are not lost. The ESG Analyst at Institutional Investor E phrases it as follows:

> *"There is a risk that [the framework developer] tries to do more than to standardize how to measure sustainability performance, and that they try to*

> *standardize how to act. If we move in that direction, the opportunity to differentiate will be diminished."* - ESG Analyst, Institutional Investor E

As illuminated by several SRI professionals, cultural differences between countries can impact SRI practices. Some argue that these differences enhance the difficulty of implementing standardization in practice. The Sustainability Coordinator at Institutional Investor G mentioned that Sweden is a market that has come exceptionally far in SRI practices, and that *"it will likely be tougher for many other European countries"* to accept standardization. However, in line with their previous rationales, the ESG Analysts at Institutional Investors A and E argued that the UN Agenda for 2030 has facilitated the acceptance of standardized frameworks among institutional investors in different nations, as these nations have the same fundamental values concerning the notion of sustainability.

5.2.2 The current state of standardization

The SRI professionals express both positive and negative views towards the current state of standardization and, more specifically, the EU Taxonomy. The professionals were generally carefully positive towards accepting and using the Taxonomy. For instance, the Head of ESG at Institutional Investor F presented the following view:

> *"I am not a fan of the Taxonomy so far, but I am positive towards the initiative because I believe it is necessary."* - Head of ESG, Institutional Investor F

The SRI professionals agree that the Taxonomy, in its current version, is underdeveloped and misses key economic activities within environmental sustainability factors. However, considering that the Taxonomy's inception was rather recent, the Sustainability Coordinator at Institutional Investor G stated that *"it is a good start"* in the endeavor to achieve standardization, as more economic activities will be added in the future. The ESG Analyst at Institutional Investor E pointed out that, although the current version of the Taxonomy involves only a limited number of economic activities, one positive aspect of the framework is that *"it has gone into great detail in the sectors it currently covers"*. Several SRI professionals, however, acknowledge that the current state of the Taxonomy lacks a central part of sustainability, namely classifications of social factors.

The ESG Analyst at Institutional Investor E criticizes the Taxonomy for making binary classifications of sustainability by classifying economic activities as either sustainable or unsustainable. Sustainability should, according to them, rather be viewed as a continuum:

> *"There is an incorrect view in the EU Taxonomy where they put up screening criteria that establish whether an investment is sustainable or not, making it binary. [...] It is better to view economic activities on a scale of sustainability."*
> - ESG Analyst, Institutional Investor E

These binary classifications are the main cause of dissatisfaction among the institutional investors concerning the classifications presented by the Taxonomy. Several SRI professionals brought up Swedish real estate, forestry, and hydropower as examples of, in their opinion, sectors with erroneously classified economic activities that result from flawed binary classifications. Since the Taxonomy is not enforcing the use of its classifications, institutional investors may still invest in companies in these industries despite the companies being classified as unsustainable. As a result of this, the Project Lead at Institutional Investor D explained that *"communication challenges arise where companies we invest in get low Taxonomy numbers, which we have to explain to our customers"*. This creates considerable confusion among their customers, as the institutional investors portray their funds as sustainable, but the Taxonomy claims the opposite to be true.

Although the non-enforcing nature of the Taxonomy causes communication challenges, some SRI professionals view the non-enforcing nature of the Taxonomy as a positive trait, as it allows institutional investors to choose classifications that they perceive as correct, while omitting classifications they disagree with. In economic activities that are seen as poorly classified, the ESG Analyst at Institutional Investor A argues that *"it is good to make subjective judgments"* to motivate investments in sectors with erroneously classified activities. However, the Project Lead at Institutional Investor D presents a contrasting view:

> *"To achieve standardization, everyone must use the same classifications and criteria, otherwise you lose the purpose of the Taxonomy altogether."* - Project Lead EU Sustainable Finance, Institutional Investor D

The ESG Analyst at Institutional Investor E presents an argument that combines these two perspectives: the technical screening criteria that determine the binary classifications of SRI are arbitrary, and can therefore be adjusted to suit the institutional investor. However, as opposed to the view of the ESG Analyst at Institutional Investor A, this argument only involves modifying the limits set out by the Taxonomy's technical screening criteria and does not support the practice of omitting aspects of the Taxonomy that one does not agree with. Rather, the ESG Analyst at Institutional Investor E argues that institutional investors should use the Taxonomy as a base upon which additional criteria and strategies can be used. By providing institutional investors with this possibility, the Taxonomy opens up new opportunities for differentiation:

> *"Nothing is stopping you from going further. [...] The ones who wish to do something special are allowed to niche themselves."* - Sustainability Manager, Institutional Investor H

In other words, the Taxonomy does not stop institutional investors from working more with SRI in their investment process than the framework demands. Investment firms can hence differentiate themselves by, for instance, working actively with company dialogues or using their shareholder rights to vote for more sustainable directions in their portfolio companies. As explained by the Head of Sustainability at Institutional Investor C, this is made possible as *"transition activities are included in the Taxonomy today"*, which allows institutional investors to continue working with transition cases in their SRI strategies.

As the SRI professionals highlighted previously, although SRI classifications should be determined through top-down standardization, the market's perspective should still be considered. The Sustainability Coordinator at Institutional Investor G explains that the Taxonomy has accomplished exactly this, as the framework has been developed by a Technical Expert Group that involves a variety of financial actors from the European market. In other words, the perspective of institutional investors has been considered in the Taxonomy, as *"it is not a small EU team that has developed the Taxonomy on their own"*.

5.2.3 The future of standardization

As evident in the preceding sections, the institutional investors recognize the worth and necessity of standardization of SRI, although the current state of standardization may not be perfect. The Taxonomy must consider its shortcomings, by extending the framework to more economic activities and reconsidering the binary classifications. However, as expressed by the Project Lead at Institutional Investor D, *"the Taxonomy and other future standardized frameworks will not be perfect initially, but rather represent a process that will become refined over time"*. The future of standardization should therefore simply involve better and more meticulously developed standardized SRI frameworks, according to the SRI professionals. As stated by the Head of ESG at Institutional Investor F, as well as the Project Lead at Institutional Investor D, the future of SRI will likely involve more quantitative data, which should make the field more easily measurable and less heterogeneous.

The field should furthermore deviate from its historical heterogeneity by moving closer to a common consensus, according to several SRI professionals. The ESG Analyst at Institutional Investor E explains that, although there will never be a single metric that single-handedly can evaluate sustainability performance, *"we will move closer to a consensus concerning a number of metrics to measure different dimensions of sustainability"*. Similarly, Institutional Investor B's ESG Analyst claims that such a consensus is likely to be formed around the Taxonomy once it has become more developed in the future. The Sustainability Coordinator at Institutional Investor G extends this even further:

> *"I believe that, in the future, we will not speak about sustainability as a niche in the way we are doing right now. I rather believe that it will become the standard for all investments."* - Sustainability Coordinator, Institutional Investor G

The indisputably most common point of discussion surrounding the future of standardization pertained to the development of a standardized framework that considers social aspects in addition to the current climate-focused Taxonomy. All SRI professionals agree that a standardized framework for social factors is the natural next step after the development of the current Taxonomy. Furthermore, many professionals argue that it was an intelligent decision by the EU to launch a Taxonomy for environmental factors before launching a social counterpart. The Project Lead at Institutional Investor D mentions that standardization *"is easier for climate factors as you have clear goals and you know what is necessary quantitatively in terms of reduction of emissions"*, which makes it *"easier for the general public to understand"* according to the Sustainability Coordinator at Institutional Investor G.

The ESG Analyst at Institutional Investor E concurs that a social framework is needed, but argues that such a framework should refrain from applying the type of binary classifications that the current Taxonomy is doing.

Despite these positive views towards future social standardization, the SRI professionals associate great challenges with such an implementation. The primary challenge originates from the exceptional heterogeneity that, as previously mentioned, the SRI professionals see in social factors. The Head of Sustainability at Institutional Investor C explains this challenge:

> *"Social factors are more controlled by our values, and a social taxonomy must consider that. It will therefore likely be more difficult to implement compared to the current environmental Taxonomy where research can have its say."* - Head of Sustainability, Institutional Investor C

The Project Lead at Institutional Investor D explains that the non-quantitative nature of social factors makes social standardization even more difficult. However, the professional continues by pointing out that *"social factors will likely become more and more data-driven going forward"*, providing the social aspect of SRI with a similar quantitative foundation to that of climate factors. This, in turn, will likely make it easier to implement a social taxonomy in practice, according to the SRI professional.

6. Analysis

6.1 Heterogeneity

The empirics illustrate that SRI is, overall, discussed as a subjective concept that is open to great interpretation. Nevertheless, as the fundamental pillars and values of social responsibility are commonly accepted among institutional investors, the SRI professionals do not view SRI as an entirely subjective concept. The findings furthermore show that there is heterogeneity in Swedish institutional investors' SRI practices, particularly concerning transitional investment cases. However, there is some homogeneity evident in the similarity of negative screening criteria applied.

The cause of this degree of homogeneity in the Swedish market is also illuminated by the empirics, as several among the causes of SRI heterogeneity were discussed as neither prevalent nor important in the institutional investors' contexts. The first factor, ideological standpoints, was shown to be near absent in the institutional investors' SRI practices. SRI rather involves an ideologically impartial analysis, based on facts rather than the ethical standpoints of its practitioner. Although an analysis is always susceptible to subjective judgments, when grounded in facts rather than ideology, the subjectivity is reduced substantially. The SRI analysis thus becomes similar to a regular financial analysis, in which financial analysts use facts rather than ideological standpoints to reach investment recommendations.

Flexibility in SRI classifications is also described as relatively unimportant, although the financial advisory firm naturally requires adaptation to customers' views as a result of its business model. Customers rarely require adaptation of screening criteria, as they tend to be satisfied with the institutional investors' SRI practices. Furthermore, the institutional investors do not require flexibility within screening criteria for different funds, as most of them use a single, unified system for SRI classification internally. This further contributes to decreased heterogeneity of SRI in the Swedish financial market.

The wish to differentiate oneself in the SRI market was present among the institutional investors. Differentiation is achieved through corporate images that portray the institutional investor as more sustainable than their competitors, which is primarily obtained through more diligent approaches within transition cases and engagement dialogues. Naturally, such differentiated practices produce heterogeneity within approaches used for transition cases and dialogues. However, differentiation does not seem to occur within screening criteria as the SRI professionals explained that Swedish institutional investors are relatively similar in their negative screens. The heterogeneity produced by differentiation thus seems to be limited to transition cases and dialogues. Some SRI professionals even claimed that SRI is a hygiene factor and that the differentiating effect of SRI only becomes tangible after financial returns have been considered. Therefore, to some institutional investors, the specific approach taken to SRI is not seen as an important competitive advantage. Taken together, this indicates that differentiation plays a role in establishing heterogeneity, but only to a certain degree.

Although the three factors above show that SRI is only a partly heterogeneous concept, more heterogeneity seems to remain when looking beyond a single market. The empirics revealed that national culture and its entailing norms within sustainability have a large impact on SRI practices employed by institutional investors in Sweden. As noted by the SRI professionals, this should imply that institutional investors in countries with different cultural norms should have dissimilar SRI practices. It is, however, not clear whether this is the case, as the ESG Analysts at Institutional Investors A and E highlighted that fundamental SRI values are rather similar across different countries, which would naturally reduce this heterogeneity to an extent. However, as this study took place in a Swedish context, a conclusion cannot be established as to whether culture has an impact on SRI practices in other countries, nor if culture contributes to heterogeneity in an international context. This discussion rather aims to shed light on the idea that culture can have an impact on SRI practices of institutional investors, which could contribute towards such heterogeneity.

Given these results, it is not possible to classify SRI as a heterogeneous or homogeneous concept; rather, there are tendencies towards both perspectives. In the Swedish market, there are certainly degrees of homogeneity that can be explained by a lack of ideological standpoints in SRI and a negligible need to adapt to customer values. Differentiation certainly contributes to heterogeneity, but only to a certain extent. However, when considering the effect of national cultures, greater heterogeneity could potentially be identified. The results do, on the other hand, illustrate that SRI is not entirely heterogeneous, indicating a departure from its ambiguous and thoroughly subjective past.

6.2 Standardization

6.2.1 Standardization as a concept

The SRI professionals are exceedingly positive towards standardization as a concept, as they argue that the financial market as a whole, as well as their customers, benefit from such an initiative. From the perspective of the financial market, a consensus is established that moves the field away from its ambiguous past; a tool is created that assists in steering capital towards companies that are truly sustainable; SRI professionals gain access to a classification system that allows for better and more accurate comparison between companies; and SRI is allowed to move into the financial mainstream. From the perspective of the institutional investors' customers, transparency increases and customers become more aware of the sustainability of the assets they invest in. All in all, the SRI professionals, as well as their respective institutional investment firms, welcome standardization as a concept with open arms.

These positive attitudes towards standardization can be explained by the empirical finding that SRI is only a partly heterogeneous concept. Naturally, the less heterogeneous the concept is, the less reason institutional investors have to reject standardization initiatives (Sandberg et al., 2009). This exact relationship is seen in the empirical findings in three ways. Firstly, the lack of influence of ideological standpoints in the institutional investors' SRI practices facilitates acceptance of standardization, as they are not contingent on ideological beliefs in their SRI analyses. Secondly, because the institutional investors display limited interest in being flexible in their SRI classifications, acceptance is further assisted as a standardized framework does not oppose the institutional investors' willingness to be flexible. Thirdly, although differentiation is a relatively stronger cause of heterogeneity, it is mainly connected to transitional cases and engagement dialogues, and some institutional investors even regard their specific approach to SRI as a relatively unimportant factor of differentiation. Furthermore, as long as standardized frameworks allow institutional investors to develop their own approaches within transitional investment cases and engagement dialogues, they can maintain their differentiating factors. This indicates that the notion of standardization does not necessarily contrast the institutional investors' competitive advantages. In conclusion, as ideology and flexibility do not seem to produce substantial heterogeneity, and differentiation only produces heterogeneity to a certain degree, standardization becomes more easily acceptable from the perspective of institutional investors.

As explained previously, culture has an impact on SRI practices among institutional investors in Sweden, which could indicate that heterogeneity in SRI classifications exists among different countries. This could potentially lead to difficulties among institutional investors in countries with less mature SRI markets to accept standardization, as opposed to the exceedingly positive perceptions provided by the SRI professionals representing Swedish institutional investors in this study. Nonetheless, some SRI professionals claimed that the similarities in fundamental sustainability values make acceptance easier even among international institutional investors. However, as the present study focused on the Swedish market, a conclusion concerning institutional investors' views towards standardization in other countries cannot be established. The purpose of this discussion is rather to suggest that culture can have an impact on the acceptance of standardization.

The empirics further reveal that top-down standardization, as opposed to market-led SRI, is preferred among the institutional investors. It is claimed that greenwashing can only be prevented if a central authority determines the standards. Although such a top-down standardization inherently involves a risk of politicians misjudging the market's various perspectives concerning SRI classifications, the SRI professionals seem to argue that the gains of standardization outweigh this obstacle. Moreover, as several professionals even deemed SRI to be an only partly subjective concept, the willingness to hand away classifications to politicians could be explained by the notion that classifications are not fully subjective.

6.2.2 The current state of standardization

In its current state, the Taxonomy does not live up to the exceptionally positive views that surround standardization as a concept. Although the SRI professionals explained that their investment firms were carefully positive towards the Taxonomy, they argued that it is currently missing key economic activities and social factors. Furthermore, the Taxonomy makes wrongful binary classifications of economic activities as either sustainable or unsustainable, and it is argued that sustainability should be measured on a continuum instead. As a result of such erroneous classifications, communication challenges arise towards customers as institutional investors must explain why they deviate from the Taxonomy's classifications. Nevertheless, it is evident that the SRI professionals believe that the Taxonomy is a comprehensive attempt at standardization and a good start in the journey towards the desired harmonization of SRI.

A key issue covered in the SRI professionals' discussions was the ability to make subjective judgments to disregard or modify technical screening criteria in economic activities where the Taxonomy has made inaccurate binary classifications. This is made possible as the Taxonomy's classifications are not enforced from the investor's point of view, allowing the institutional investors to use the framework as an additional tool rather than as a complete replacement of their own analyses. While some claim that this ability is a strength of the Taxonomy, others question whether standardization is achieved when institutional investors are allowed to select classifications that they agree with. However, as explained by Sandberg et al. (2009), standardization in an SRI context does not necessitate that all institutional investors should use the *same* criteria, but rather that the criteria used should be *similar*. Standardization can thus be achieved in practice even if institutional investors are allowed to make subjective judgments, as long as the criteria overall remain similar. Enforcing institutional investors to use the exact same criteria without the possibility to make such judgments would most likely make them less willing to accept standardization. Therefore, a standardization in which all institutional investors use the exact same criteria is likely not possible to achieve in practice, meaning that the mutually beneficial approach taken by the Taxonomy where harmonization is pursued but not enforced might be the best option in order to achieve a more sustainable capital market.

It is highlighted by the institutional investors that the Taxonomy allows them to achieve their desired differentiation concerning transitional cases and engagement dialogues. They argued that the Taxonomy can be used as a base to apply additional differentiating strategies and criteria, which consequently facilitates their acceptance of the Taxonomy substantially. This illustrates one of the Taxonomy's strengths: it standardizes how to measure sustainability performance, not how institutional investors are allowed to act. Had institutional investors not been able to pursue their competitive advantages by using additional strategies and criteria, the Taxonomy would likely have been regarded in a severely more negative light.

As mentioned previously, the institutional investors believe that top-down standardization is imperative in order to rid the financial world of greenwashing. Yet, the empirical findings also indicate that the market's perspective of SRI is important to consider when developing standardized frameworks. The Taxonomy has established a compromise between these two views, as it is developed on a governmental level but in association with financial market actors through the Technical Expert Group. This consideration of the market's perspective makes the institutional investors more positive towards the Taxonomy, as the risk of misclassifying activities is reduced.

6.2.3 The future of standardization

In accordance with their positive views towards standardization as a concept, the institutional investors believe that the future of SRI should involve more standardization, as opposed to the ambiguity that has characterized SRI in the past. However, more standardization does not involve more enforcement of standards, but rather a future path towards a common consensus surrounding how to measure various aspects of SRI. The role of standardization should hence be as a guide rather than as an enforcement: a guide that nudges investors in a common direction without strict enforcement. As mentioned previously, a standardization through which all institutional investors apply the exact same criteria and strategies is likely not possible to achieve in practice, and therefore the consensus should rather shape around common metrics that still allow subjective judgments to be made. This is, as highlighted earlier, the approach that the Taxonomy has already taken today. SRI is, furthermore, expected to become more data-driven in the future, which will make sustainability more easily measurable and facilitate the path towards a common consensus.

Although the current state of standardization is described as a good start, the Taxonomy is far from resembling the institutional investors' perceptions of standardization as a concept. There is a long road left before the Taxonomy can live up to the many of the positive aspects of standardization as a concept. The institutional investors mention that the Taxonomy must expand its coverage of economic activities, reconsider the binary classifications of activities as sustainable and not sustainable, and, most importantly, add a social counterpart to the current climate-focused Taxonomy. However, the SRI professionals associate great challenges with the implementation of a standardized framework for social factors, as such factors are seen as more subjective than the more quantitative and data-driven climate factors. Considering the substantial disagreement that has occurred over classifications in the current climate Taxonomy, a standardized framework that is based on even more subjective social factors will likely be more difficult to accept as an institutional investor. Nonetheless, as some institutional investors highlight, social factors will likely follow the trajectory of climate factors and become more data-driven in the future, which might reduce the complexity involved in a future implementation of a social Taxonomy.

7. Discussion

7.1 General discussion

This study aimed to examine how SRI professionals discuss standardization of SRI with respect to three aspects: standardization as a concept, the current state of standardization, and the future of standardization. As discussions surrounding standardization depend on the heterogeneity of SRI (Sandberg et al., 2009), the study began by examining whether the concept of SRI is discussed in a heterogeneous way. To that end, the analysis gave evidence for practical heterogeneity inherent in the concept of SRI, although the SRI professionals attached a degree of homogeneity to the concept. This finding can be explained by the low prevalence and importance of the causes of SRI heterogeneity that previous studies point to. Firstly, ideological standpoints were found to be near absent in SRI, replaced by a less subjective analysis that builds on facts rather than ideology. Secondly, the institutional investors showed limited to no intention of being flexible in their own SRI classifications among different funds and asset management practices. Thirdly, differentiation was mainly important with respect to transitional cases and engagement dialogues, while screening criteria were shown to be a relatively less important component in the establishment of an SRI-related competitive advantage. Further, SRI is viewed by some as a secondary and possibly immaterial source of differentiation. Thus, differentiation plays only a limited role in generating SRI heterogeneity. Combined, these aspects illustrate that SRI as a concept is not as inherently heterogeneous as previous studies claim. While previous studies argue that ideology (e.g. Sullivan, 2011), flexibility (e.g. Sandberg et al., 2009), and differentiation (e.g. O'Rourke, 2003) contribute towards increased heterogeneity, this study challenges this claim as the findings indicate that these factors have limited effects in producing heterogeneity. One reason for this deviation is that several articles on SRI heterogeneity were conducted during a time when SRI could still be considered a niche market (Arjaliès, 2010). Today, SRI has become more mature and mainstream in the financial markets (Revelli, 2017), and this study suggests that this maturity has resulted in increased homogeneity of SRI practices among institutional investors. The findings, therefore, indicate that SRI as a concept has moved away from its ambiguous and heterogeneous past, and has become characterized by a degree of homogeneity.

Although the prevalence and importance of ideology, flexibility, and differentiation were shown to be low among the institutional investors, culture was shown to be influential in how they work with SRI. However, this study cannot determine whether culture creates heterogeneity in SRI practices across different countries as the context of the study was limited to the Swedish market. Nevertheless, in line with previous studies (e.g. Bengtsson, 2008b; Louche & Lydenberg, 2006), the findings indicate that culture has an impact on SRI practices, which in turn could potentially create differences in SRI among different countries.

As the concept of SRI was found to be less heterogeneous than previous studies claim, it is not surprising that the findings indicated highly positive attitudes among the SRI professionals towards the *concept of standardization*. This is because, the less heterogeneous and subjective the concept of SRI is, the easier it becomes for the institutional investors to accept a standardized framework that harmonizes the concept (Sandberg et al., 2009). As ideological standpoints were limited, standardization becomes easier to accept as the institutional investors are independent of ideologies in their SRI analysis; as the wish to be flexible in SRI practices was close to non-existent, acceptance of standardization is further facilitated; and as differentiation only pertains to a part of the SRI analysis and was viewed by some as unimportant, standardization is still appreciated as long as it allows for differentiation within transitional cases and engagement dialogues. Adding to this favorable foundation for standardization are the benefits of standardization discussed by the SRI professionals, including benefits for the capital markets in the form of less ambiguity in SRI analyses and more capital directed towards truly sustainable firms, as well as benefits for the institutional investors' customers as the sustainability of their investments becomes more transparent. Although culture was described as a factor that potentially complicates acceptance of standardization across borders, some institutional investors argue that the UN Agenda's principles have established fundamental similarities across different cultures with regards to sustainability values. Taken together, these findings challenge previous studies (e.g. Friede, 2019; Berry & Junkus, 2013; Sandberg et al., 2009) that regard standardization as a concept that is difficult to achieve in practice and that is undesirable from the perspective of institutional investors, as the present study rather finds that institutional investors are exceedingly positive towards the concept. Furthermore, as the SRI professionals displayed positive attitudes towards top-down standardization, the study provides evidence that supports the conjecture presented by Sandberg et al. (2009) that a top-down approach facilitates acceptance of standardized frameworks on the practical level of SRI.

As opposed to standardization as a concept, the *current state of standardization* and, more specifically, the EU Taxonomy is discussed in a less positive light. It is argued that the Taxonomy is currently missing social factors and several economic activities, misjudges the sustainability of certain economic activities, and builds on misguiding binary classifications. Nonetheless, it is described as a good start in the endeavor of achieving standardization in the European capital market, and its consideration of the market's perspective is appreciated by the institutional investors. It furthermore allows the institutional investors to maintain their competitive advantages within transitional cases and engagement dialogues, thus challenging previous studies (e.g. Sandberg et al., 2009; Nath, 2019; O'Rourke, 2003) that claim that differentiation and standardization are contrasting concepts within the field of SRI. However, due to the Taxonomy's flaws, many institutional investors are unwilling to fully accept the framework, and advocate the use of subjective judgments that are enabled through the Taxonomy's non-enforcing nature. Others argue that such judgments prevent standardization from actually being achieved in practice. However, in line with the definition of standardization provided by Sandberg et al. (2009), as long as SRI practices become *similar*, standardization is achieved. This indicates that standardization in which all financial market actors use the exact same criteria is likely not possible to achieve in practice as there will always be some heterogeneity inherent in the concept of SRI.

The discussion concerning the *future of standardization* indicates that the SRI professionals believe that SRI should transition away from its ambiguous past and become more standardized in the future. In the context of the Taxonomy, this involves the establishment of a social counterpart to the current Taxonomy, a reconsideration of the binary classifications applied, and the addition of more economic activities. On a more general level, it is important to note that more standardization does not imply stricter enforcement of standards. Rather, standardization in the future should, similar to the current version of the Taxonomy, be a guide towards a common consensus. The consensus should therefore allow for subjective judgments to be made, as the findings indicate that this is a precondition for standardized frameworks to work in practice. Although this means that all institutional investors will not use the exact *same* criteria, it is certainly a step towards a more harmonized direction for the SRI field, as institutional investors begin using *similar* criteria. As SRI is expected to become more quantitative and data-driven going forward, sustainability becomes more easily measurable which facilitates the path towards this consensus. Perhaps this even calls for a completely new theoretical perspective of SRI as a notion that resembles a regular financial analysis. Similar to financial analysis, SRI should be seen as an unambiguous concept that builds on facts and quantitative data rather than the ideological standpoints of its practitioners. Research must begin to acknowledge this and reconsider the ambiguity of SRI that is so often taken for granted.

7.2 Theoretical contributions

The most significant contribution of the study to previous literature is the finding that standardization in an SRI context is a genuine possibility as institutional investors view the concept very positively. In previous studies, standardization has been viewed as a concept that is undesirable from the perspective of institutional investors, making it difficult to achieve in practice. This has hitherto been explained by substantial heterogeneity associated with SRI that complicates the acceptance of standardization among institutional investors. The present study, on the other hand, indicates that SRI might not be as heterogeneous as these studies claim. Ideology and flexibility were shown to be near absent in the institutional investors' SRI practices, and differentiation only seemed to partly contribute towards heterogeneity. In fact, differentiation seems to be possible to achieve even in a standardized context. Although no formal conclusion can be established for cultural effects on cross-border heterogeneity, the findings indicated that similarities in fundamental SRI values among UN countries could potentially facilitate acceptance even across different cultures. The study, therefore, contributes with a completely different perspective of SRI as a concept characterized by less ambiguity and heterogeneity than previous studies frequently claim. Research must begin to recognize SRI as an investment approach that shares similarities with regular financial analysis and cease to discuss the concept as something inherently ambiguous.

7.3 Practical implications

The practical implications of the present study primarily pertain to the future development of standardized SRI frameworks and, in particular, the development of the EU Taxonomy. The current version of the EU Taxonomy should reconsider its choice of binary classifications of sustainability and consider the development of metrics that measure sustainability as a continuum instead. The EU should, furthermore, establish a Taxonomy for the classification of social factors. It is, however, imperative that the EU understands that social factors are intrinsically characterized by more subjectivity than climate factors, which may hinder institutional investors' acceptance of such a framework. Nevertheless, as social factors become more data-driven and quantitative with time, acceptance will likely become facilitated. Therefore, a social Taxonomy should be developed.

Although the institutional investors recognized flaws in the current version of the Taxonomy, they perceived the concept of standardization as an entirely positive development in the financial markets. Therefore, the risk of institutional investors disapproving standardization initiatives seems to be exaggerated, especially if they are implemented in a way that is appealing to institutional investors. This involves implementing frameworks as guides that standardize measurements of SRI without enforcement, as well as a consideration of the flaws evident in the current state of the Taxonomy. Through such an implementation, standardized frameworks would become more effective in achieving their objectives of steering capital towards truly sustainable corporations, as the practitioners of the frameworks become willing to follow the frameworks' classifications. As a result, standardized frameworks become an important component in the transition towards a more sustainable world.

7.4 Limitations and future research

As the study involved a small sample of interviews with SRI professionals from Swedish institutional investment firms, it should be stressed that the generalizability of the results is limited. For instance, ideological standpoints may be present in SRI analyses made by investment firms in other countries, and perhaps differentiation through SRI is achieved in entirely different ways in those countries. Similarly, the present study can only provide an indication of cultural effects on the acceptance of standardization. Thus, future research must examine whether standardization is viewed in the same positive light across multiple cultures, and whether ideology, flexibility, and differentiation are factors that make acceptance of standardized frameworks less feasible in other countries. As the Taxonomy only applies to EU countries, such studies should begin by focusing on countries in the EU. The results of the present study could, however, be generalizable across countries that share Sweden's maturity within SRI. It is, therefore, important that future research prioritizes countries characterized by less mature SRI markets to establish an understanding of how professionals at institutional investment firms that work less actively with SRI discuss the topic of standardization.

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Appendix

Appendix 1: Additional Taxonomy material

Final report on the EU Taxonomy

https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

Technical annex to the final report on the EU Taxonomy

https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

Supplementary report on the EU Taxonomy

https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-using-the-taxonomy_en.pdf

Appendix 2: Interview guide

Part 1: Heterogeneity

1. Do you generally think it is difficult to classify what a socially responsible investment is?
    a. Do you think sustainability, and in particular what constitutes a socially responsible investment, is subjective?
2. Is it more difficult to classify what a socially responsible investment is within social factors compared to climate factors?
3. Would you say that Swedish institutional investors classify socially responsible investments in similar ways, or are there big differences?
4. Does your institutional investment firm have an ideology of what should be classified as sustainable?
    a. Is your ideology different compared to the ideologies of other institutional investors?
    b. Do you, for example, invest in industries that other institutional investors avoid?
    c. Overall, do you apply criteria in your sustainability analyses that are different compared to other institutional investors?
5. Is your company’s approach to socially responsible investments a competitive advantage for your firm?
    a. Do customers choose you because of your sustainability work?
6. Does the Swedish culture and its entailing norms impact your classifications of socially responsible investments?

    a. Would you say that your classifications of socially responsible investments are different compared to companies in other countries?
7. *Only for asset/wealth managers:* Do you allow for adaptation of socially responsible investment criteria for individual customers?
8. *Only for fund companies:* Do your funds have different criteria for classifying socially responsible investments?

Part 2: Standardization

9. What is your opinion concerning standardized frameworks that attempt to create objective classifications of socially responsible investments?
    a. Is it a good idea to create such standardized frameworks if socially responsible investments are subjective? Why/why not?
    b. Are you open to using such standardized frameworks?
    c. Do you feel that there is a need for such standardized frameworks?
10. Do you believe that usage of standardized frameworks risks leading to you losing your own ideology within social responsibility?
11. Do you believe that usage of standardized frameworks risks leading to you losing your differentiation within social responsibility?
12. Do you believe that standardization is possible when institutional investors in different countries have so different views on what should be classified as socially responsible?
13. Should classifications of socially responsible investments be market-led, or should classifications be controlled by a central organization (such as the EU)?
14. Do you believe that there is a need for future standardized frameworks for social factors?
15. Do you think that socially responsible investments should become more standardized going forward?
16. Do you think that the Taxonomy is a good attempt at standardization of socially responsible investing?
17. Do you believe that the EU:s current version of the Taxonomy classifies certain economic activities as unfairly unsustainable?