Owner's Salience in Unlisted Businesses

How owners work to enhance stakeholder salience within unlisted businesses in a sustainability context

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Thesis Submission for the degree of
Master of Science in Business & Management
Stockholm School of Economics
May 16, 2022

Abstract

Shareholder activism in sustainability is increasingly being used to influence companies and their managers. Previous studies have focused on listed firms, but little theory has concentrated on unlisted assets. By conducting a qualitative study with stakeholder salience and its three areas as the underlying theoretical framework (Mitchell, Agle & Wood, 1997), this thesis suggests that several different prerequisites in unlisted assets affect how owners work to influence the companies they own. The findings suggest that power is used to a minor degree, as the focus mainly is on private engagement, and many power sources are seen to undermine the relationship. As for legitimacy, owners work to increase their credibility in the market and focus on alignment of thoughts and incentives, even before an investment is made. The importance of this work and of legitimacy is enhanced by the target firm being able to choose its investors. Owners therefore position themselves to increase management's commitment by providing strong business cases for engaging in sustainability, but sometimes fail to provide guidance between different sustainability issues, partly reducing legitimacy. As the focus mainly is on private engagement, owners struggle to make the issues time-sensitive. Urgency is, however, increased through criticality, as owners work persistently to showcase the importance of sustainability, also through the allocation of resources. This thesis extends the application of Mitchell, Agle & Wood (1997) stakeholder salience to unlisted assets and suggests that the dynamics of the factors differ due to some of the unique characteristics of unlisted firms. This thesis increases the theoretical understanding of owners' work to enhance salience in unlisted companies within sustainability and provides valuable insights into how practitioners could work to enhance their salience.

Keywords: active ownership, stakeholder salience, corporate sustainability, unlisted businesses

Acknowledgements

We are very thankful for all the support we have received throughout the work with this thesis. First, we want to give our warmest thank you to our supervisor Emma Sjöström, who provided invaluable guidance in the making of the thesis by enabling us to challenge ourselves and take the work a step further. We are incredibly grateful for your efforts and engagement. We would also like to thank the friends and family who provided support personally in this project. Lastly, thank you to all the participants who participated in this research project. We are genuinely humble for the time you dedicated to us.

We are grateful for the support you all provided. Thank you!

Stockholm, May 2022

Gustav Henningsson Jakob Lewander

Glossary

Word	Definition
Stakeholder	Any group or individual who can affect or is affected by the achievement of the organisation's objectives (Freeman, 1984: 46).
Stakeholder salience	The degree to which managers give priority to competing stakeholder claims (Mitchell, Agle & Wood, 1997).
Shareholder activism	Actions taken by shareholders with the explicit intention of influencing corporations’ policies and practices (Goranova & Ryan, 2014: 1232).
Active ownership	Includes shareholder activism but extends to a wider range of institutional investor behaviour, that incorporates developing relations with corporations through different influence processes and intent (McNulty & Nordberg, 2015).
Private activism	Activism that includes private negotiations, behind-the-scenes consultations, letters, phone calls, meetings, and ongoing dialogues (Goranova & Ryan, 2014).
Public activism	Activism that includes options such as shareholder resolutions, publicised letters, focus lists, and media campaigns (Goranova & Ryan, 2014).
Target firm	The term used in this paper for a company that an owner engages in active ownership with.
Owner firm	The term used in this paper for a company that engages in active ownership in a company they own.
Science based Targets Initiative (SBTi)	An initiative that originates from and is closely tied to the Paris Agreement, where a company who joins commits to reduce their carbon emission in accordance with the Paris Agreement (Science Based Targets, 2022).
ESG	Framework used for areas included in sustainability, constituted by Environmental, Social and Governance factors. ESG serves as the definition of sustainability in this thesis, and as such, the terms are used interchangeably in this paper (The Global Compact, 2004).
Unlisted company	A company whose shares are not traded on a stock exchange (Cambridge University Press, 2022a).
Institutional investor	An organisation that invests in something (Cambridge University Press, 2022b).

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1. Introduction

1.1 Background

The Paris Agreement outlines that capital allocation is an essential part of transforming to a more sustainable society (United Nations, 2015) as financial markets enable companies to invest in new initiatives by providing capital (Scholtens, 2006; Busch, Bauer & Orlitzky, 2016). Moreover, sustainability has become important in driving companies' performance (Adams, 2017). Therefore, owners are focusing on shifting companies towards operating more sustainably to cope with the required transition (Dimson, Karakas & Li, 2018; Goranova & Ryan, 2018). This study's theoretical definition of sustainability emanates from the Environmental, Social and Governance (ESG) framework created in 2004 by the United Nations. The framework is applied to clarify the sustainability-related challenges and risks that sectors and companies face. The aim is for institutional investors and target firms to integrate all factors into their sustainability work. The first area of ESG is environmental aspects and mainly focuses on global warming and the reduction of greenhouse gas (GHG) emissions (Arvidsson & Dumay, 2021). The work around global warming often emanates from the Paris Agreement from 2015, where 195 countries agreed to keep global warming well below 2°C above pre-industrial levels (Falkner, 2016; IPCC, 2018). Social responsibility includes employment conditions and human rights, whereas governance responsibility entails combating corruption and anti-competitive behaviour, albeit the factors are not limited to these examples (The Global Compact, 2004). There are benefits to be reaped for the individual companies and their owners upon improvements of the firm's sustainability practices, as companies operating sustainably can gain higher returns (Dimson, Karakaş & Li, 2018). Investments in companies with more robust sustainable practices tend to outperform their counterparts (Kempf & Osthoff, 2007). Consequently, interest from owners around sustainability has also grown in recent years. For certain types of investors, such as venture capital firms, reputation is essential in gaining access to the best investment opportunities (Nahata, 2008), and sustainability has become a factor that impacts the firm's reputation (Cowan & Guzman, 2020).

Previous studies have investigated various methods that owners use to influence target firms to make them more sustainable (e.g., Scholtens, 2014; Cowton, 2004; Du Reitz, 2018, Reid & Toffel, 2009). Initially, investors mainly focused on excluding companies based on selected criteria and actively including companies that score well in sustainability (Scholtens, 2014). Some scholars have criticised only focusing on exclusion as it does not contribute to sustainability in the invested companies (Cowton, 2004). Researchers have, over time, shifted the focus to active ownership, where owners work to actively influence companies to drive and implement necessary changes (Du Rietz, 2018; Goranova & Ryan, 2014). By engaging in active ownership, owners try to influence their firms to become more sustainable, and the intention is to get the management of the target firms to adopt the suggested sustainable practices (Bauer, Clark & Viehs, 2013). For managers in the targeted firms, working with sustainability is often characterised by a high level of uncertainty derived from its scientific, economic, regulatory, and social implications (Stern, 2006). Slawinski, Pinkse, Busch & Banerjee (2017) argue that these uncertainties partially explain the organisational inaction on climate change.

An organisation has many different stakeholders who make competing claims (Freeman, 1984), including around sustainability factors (Agle, Mitchell & Sonnenfeld, 1999). For instance, stakeholders can have different time horizons (Willey, 2019; Slawinski et al., 2017) or opinions on where to resonate the focus within sustainability (Reid & Toffel, 2009; David, Bloom & Hillman, 2007), affecting their focus. Therefore, understanding what determines the likelihood of managers acting on different claims by stakeholders is essential within management studies (Freeman, 1984; Mitchell, Agle & Wood, 1997). A theoretical framework commonly used for describing a manager's willingness to prioritise and act upon a stakeholder's claim is stakeholder salience, henceforth referred to as salience (Driscoll & Starik, 2004; Neville, Bell & Whitwell, 2011; Mitchell, Agle & Wood, 1997). Gifford (2010) tests what areas are most impactful to enhance salience in a sustainable investment context and attests it to be a useful model also within sustainability. Salience will be a prominent framework in this thesis, but first, positioning the background vis a vis the research gap is sufficient.

1.2 Research Gap

In organisational literature, there is a tendency by scholars to focus on mature organisations (Kimberly & Miles, 1980), a bias also seen in the field of sustainability (Thompson & Hood, 1993). However, organisations in earlier stages are likely to favour certain stakeholders over others in a manner that is not always the same as those of more mature organisations (Jawahar & McLaughlin, 2001; Gioia, 1999). Furthermore, much of the literature surrounding active ownership has an explicit focus only on listed assets (e.g., Agle, Mitchell & Sonnenfeld, 1999; Ryan & Schneider, 2003). Several specific characteristics seem to affect the success and structure of engagement in listed assets; for example, companies that historically have been targeted have been larger companies with lower sales growth (Dimson, Karakaş & Li 2015). Furthermore, a strategy that is used in listed assets is to threaten to go to the media and threaten to sell the assets if management does not listen (Admati & Pfleiderer, 2009). Research has found that large companies also gain more media attention (Miles, 1987). Therefore, large and visible companies are more socially exposed to shareholder activism because of their sheer size, even when the company has unacceptable behaviour (Miles, 1987; Rehbein, Waddock & Graves, 2004). In parallel to the increased research conducted on sustainable investing, more capital has flown into investments in early-stage ventures, leading to increased capital access for these firms. This capital invested by owners mainly goes to unlisted companies growing considerably faster than the GDP (Tillvaxtanalys, 2020). Access to capital can determine the likelihood of a company going public, and as a result, unlisted firms become larger before they go public (Bancel & Mittoo, 2009) and therefore have a more considerable potential impact on sustainability. As unlisted firms have become a growing share of the overall economy, it is becoming more important to understand and investigate how the owners of these companies may affect sustainability work within active ownership.

Nevertheless, many previous studies have had an explicit focus solely on listed companies. For example, Agle, Mitchell & Sonnenfeld (1999) suggest that the application of urgency is essential to maximise shareholder salience, but their study only focuses on large, listed companies. Furthermore, the findings of Ryan & Schneider (2003) indicate that public pension funds are most salient, a type of owner that is relatively marginal in the context of unlisted assets. There are however certain characteristics that likely distinguish unlisted companies. Several legal and reporting requirements differ between listed and unlisted companies. Louche, Busch, Crifo & Marcus (2019) argue that corporate disclosure of sustainability data is a crucial component for long-term investors to assess sustainability related risks. Reporting regulation has increased in later years around sustainability, but the directives have to a large extent targeted listed assets, both in the EU and in the US (Louche et al., 2019; European Commission, 2021). In listed firms, investors and owners have a tendency to prioritise short term stock price gains over long-term initiatives (Willey, 2019). This short-termism stands as a hindrance to acting on behalf of sustainability, as sustainability issues inherently are long-term (Slawinski et al. 2017; Louche et al., 2019). Unlisted assets have less liquid stock and are not obliged to have quarterly reports (Willey, 2019), which could influence the ability for organisations to be long-term. Jawahar & McLaughlin (2001) also argues that the importance of a stakeholder depends on the phase a target firm is in. Irrespective of whether the seemingly different prerequisites of unlisted assets impact the way owners work, there is a growing need to research how owners work with unlisted assets as it is not evident that previous findings of what drives manager's willingness to prioritise the stakeholders' different claims is the same for listed and unlisted assets.

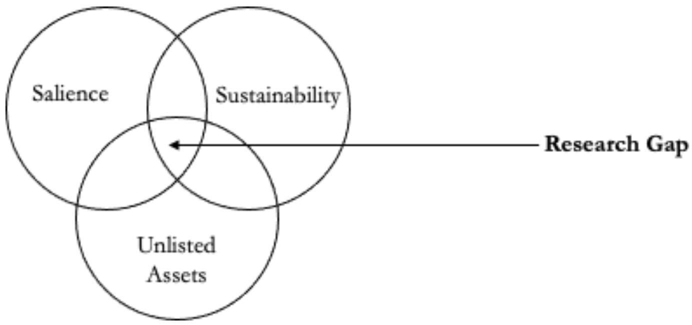

Figure 1 - Illustration of research gap

1.3 Purpose and Research Question

This thesis will empirically and theoretically investigate how owners work with salience in unlisted assets surrounding sustainability and then compare it with the current theory of how listed companies work. This will be undertaken by conducting a qualitative study that focuses on active owners work to exert influence over unlisted companies they own and using Mitchell, Agle & Wood (1997) theory of stakeholder salience as the underlying theoretical framework to explain what influences management's willingness to prioritise different stakeholder's claims. In this study, the authors seek to investigate the gap within active ownership for a substantial part of the economy that is unlisted assets. That is why this thesis investigates active ownership in unlisted companies within a sustainability context through the lens of salience. The question this thesis aims set out to answer is:

How do owners work to enhance stakeholder salience in unlisted businesses within a sustainability context, and does this differ to the work in listed businesses?

1.4 Delimitations

This thesis only looks at Swedish owners and Swedish targets. There might be geographical differences between countries, for example as the respective countries' governance structures and cultural differences in what is viewed as effective ownership, as previous studies have shown that the geographical distance between the owner and the target has an effect (Bauer, Clark & Viehs, 2013; Dimson, Karakaş & Li, 2018). Hence, this paper does not make the intent to describe how owners work with unlisted firms for other geographical regions.

1.5 Expected Contribution

This thesis expects to contribute in two dimensions. First, the thesis aims to make a theoretical contribution by extending the stakeholder salience framework to also be explanatory of how owners work to enhance salience in unlisted assets within a sustainability context Mitchell, Agle & Wood (1997). This would provide insights into the research of active ownership and stakeholder salience within the field of sustainability. This could further extend the usage area of stakeholder theory into unlisted assets as the new field and provide insights into active ownership in a new context. Combining research of salience in unlisted assets and with research on active ownership, could couple together two research fields to bring both theoretical and practical value. As such, the thesis also aims to contribute to practitioners within the studied field. Research on active ownership is important for the business world that engages in the work on a day-to-day basis. Based on the outreach in this thesis, especially from owners, it is evident that this is an area that many companies focus on but look for guidance in. As many owners engage in this work, there is a need for academia to be extended from primarily researching listed assets to including the world of unlisted assets. This is essential for owners who engage in active ownership, and for targets who are the ones that will implement the owners' suggestions.

2. Literature Review

This segment provides a literature review, first by investigating the role of owners in target firms (2.1). After that, a review of previous literature on active ownership is provided (2.2).

2.1 Owner's Role in Target Firms

For a long time, the dominating institutional logic surrounding companies has been influenced by the neoclassical economic view that companies exist for profit-maximisation and, therefore, for their owners (Friedman, 1970; Lydenberg, 2014). Within governance theory, agency theory tries to handle the relationship between owners and managers by describing how principals delegate decision-making authority to agents. As the underlying goal in this logic is for firms to maximise shareholder value, managers, the agents, work to maximise value for their owners, the principals. However, the interests of a principal and an agent are not always in alignment, as managers get their main income from salary and not through ownership. Incentives should therefore be stipulated to align the interests between the two (Eisenhardt, 1989). This has implications for how corporations and investors act, and some argue that issues such as climate change bring forward a need to search beyond neoclassical theories and assumptions (Louche et al., 2019). In contrast to agency theory, stakeholder theory questions whether shareholder value is equivalent to firm value. In stakeholder theory, shareholders are just one of many stakeholders (Freeman, 1984), and the overarching goal is to maximise stakeholder value instead of shareholder value. This opens the possibility for owners to make sustainable decisions also for the benefit of other stakeholders. This also means that owners are only one of many stakeholders that managers pay attention to. Regardless of how broad or a narrow stance is taken by researchers, owners are seen as one of the important stakeholders and remain to have a large influence (Freeman, 1984; Bowie, 1988; Donaldson & Preston, 1995).

2.2 Active Ownership within Sustainability

Owners are increasingly engaging in active ownership within a sustainability context, where the intention is to get the management of the target firms to adopt the sustainable practices that are suggested (Bauer, Clark & Viehs, 2013). This can take its form in public activism, in which an owner seeks to influence a company through public means, either through media or using their formal shareholder rights, such as through proposals at the Annual General Meetings (AGMs) (Goranova & Ryan, 2014; Hellman, 2005). Private activism is where owners engage in companies directly with management, often in the form of dialogues through meetings and other forms of communication. Public activism is often engaged in after private activism has failed (Goranova & Ryan, 2014). Private activism is suggested to be more impactful since managers may be more favourable towards acting on investors suggestions in a private setting and therefore avoiding risk to their reputations if the issue were to be made public. (David, Bloom & Hillman, 2007; Hadani, Goranova & Khan, 2011). Previous studies on shareholder activism have, for that reason, argued for a shift in focus away from public engagement and instead proposed focus on private dialogues that can benefit both owners and target firms (Logsdon & Van Buren 2009; Rehbein, Logsdon & Van Buren, 2013). Some researchers bring forward the potential difference between proactive and reactive activism. Reactive activism is where owners engage after a problem has arisen, whereas proactive dialogues try to anticipate future problems and take care of them preemptively (Dimson, Karakaş & Li, 2018).

There are mixed views on the owner's role and ability to engage in firms' sustainability work. Some empirical evidence has underscored the benefit for stakeholders from activism (Agrawal, 2012; Reid & Toffel, 2009), whereas others argue that owners might have too limited knowledge of target firm's situation to have a positive impact (Hendry, Sanderson, Barker & Roberts, 2006; Laughland & Bansal, 2010). Other researchers instead point to the risk that engagement leads to management mainly window dressing (David, Bloom & Hillman, 2007; Hadani, Goranova & Khan, 2011). Nevertheless, owners are increasingly engaging in active ownership, and researchers are researching the factors leading to succeeding in active ownership (Goranova & Ryan, 2014). Several studies indicate that the ownership size positively influences a company's ability to exert active ownership (Hellman, 2005; David, Bloom & Hillman, 2007; Hendry et al., 2006; Fich, Harford & Tran, 2015). Other studies emphasise that other factors have larger determining factors in successful activism, such as having similar values as the management and having a strong business case (Gifford, 2010). Proffitt & Spicer (2006) show that moral concerns highlighted by the owner, in combination with owners having a long-term perspective, are the most impactful aspects. Rehbein, Waddock & Graves (2004) point to stakeholders' having an increased influence upon management when business complexity and uncertainty are high. What determines the effectiveness of engagement is argued by Dimson, Karakas & Li (2015) to persuade management that the potential benefits outweigh the potential costs. Bauer, Clark & Viehs (2013) also argues that the owner's long-term thinking is a qualification for management to listen to and be willing to implement the proposal.

Companies with lower managerial ownership, poorer financial returns and those of larger size are more likely to be targeted for an engagement attempt (Rehbein, Logsdon & Van Buren, 2013; Goranova & Ryan, 2014). Furthermore, owners are more likely to engage in firms with larger exposure or more considerable portfolio weight (Fich, Harford & Tran 2015). Admati & Pfleiderer (2009) suggest that the threat of selling the shares in a target firm can act to influence managers. Other researchers suggest that the incentive to listen is reduced if the threat to exit is stated (Hirschman, 1970). One way to increase the efficiency of these dialogues is to cooperate between different owners to get more combined strength towards management (Reid & Toffel, 2009; Dimson, Karakas & Li, 2015; Du Rietz, 2018). This can be done either through a formal collaboration in an association or by different shareholders coordinating proposals to gain more support (Gillan & Starks, 2000). Dimson, Karakas & Li (2018) argue that a two-tier strategy where one owner acts as the lead and the others work as follow-on investors could be effective. The lead investor is likely the owner with the largest stake and therefore exposure in any target firm.

3. Theoretical framework

Mitchell, Agle & Wood (1997) theory of stakeholder salience serves the underlying theoretical framework in this paper. Stakeholder salience can be used for identifying and prioritising stakeholders and their claims (Neville, Bell & Whitwell, 2011). In a sustainability context, Gifford (2010) applies stakeholder salience and its various areas to determine which attributes enhanced salience the most. Papers such as Gifford (2010) and Neville, Bell & Whitwell (2011) will be used in complement to Mitchell, Agle & Wood (1997) to provide both clarity and additional considerations about salience. In the following chapter, salience is first described (3.1) and is then divided into subcategories (3.2).

3.1 The Role of Salience in Shareholder Activism

Salience is the degree to which managers prioritise competing stakeholder claims as "the stakeholders winning management's attention will be only those the managers perceive to be highly salient." (Mitchell, Agle & Wood, 1997: 871). Salience stems from organisational theory where it acts to explain what influences managers to prioritise competing stakeholders' claims in their decision-making processes. Salience consists of three attributes that form salience: power, legitimacy, and urgency. It is not necessary for a stakeholder to be strong in all three to be perceived as salient; however, the more is attained in each, the more likely the stakeholder is to be able to have influence. The same authors describe certain important characteristics regarding salience: stakeholder attributes are variable and not steady-state. Stakeholders can therefore be salient in one area and not in another, or at one point but not at a different time. Furthermore, stakeholder attributes are socially constructed and not objective truths. It is, therefore, necessary to understand the context in which owners work to enhance salience, as salience is contextually dependent (Mitchell, Agle & Wood, 1997).

Despite the widespread acceptance and application of salience, efforts to further develop or question its core assumptions have been relatively limited (Neville, Bell & Whitwell, 2011). Exceptions for example include Driscoll & Starik (2004), which propose an extension of the framework by adding to the urgency factor that a claim does not only need to be time-sensitive and critical but also influenced by the probability of the event occurring. Jones, Felps & Bigley (2007) suggest that stakeholder culture affects assessments of attributes and salience. The same authors also state that urgency is somewhat a secondary attribute to only transforming matters that already are salient to become even more salient. One extension of Mitchell, Agle & Wood (1997) is proposed by Neville, Bell & Whitwell (2011), who note that legitimacy should be derived from a moral state and desirability. This also leads them to build on and refine Eesley & Lenox (2006) findings that the stakeholder's salience should be distinguished from the salience of the claim itself, and as such, owners can make claims that are viewed as salient, partly detached from the stakeholder's own salience. Their paper argues that urgency has a toned-down role in stakeholder identification but can reinforce power and legitimacy (Neville, Bell & Whitwell, 2011; Eesley & Lenox, 2006). In consequence, only having urgency is not sufficient to be salient. Nevertheless, Neville, Bell & Whitwell (2011) agrees with Mitchell, Agle & Wood (1997) that salience is useful in the management of stakeholders. Moreover, even though there is much new research on salience, it is rarely integrated, and much of the research surrounding salience refers to the original sources (Neville, Bell & Whitwell, 2011; Lotila, 2010). Consequently, this paper builds the theoretical framework on Mitchell, Agle & Wood (1997) paper on salience. The subsections within each attribute will in turn be based on Mitchell, Agle & Wood (1997) and Gifford (2010) to enhance pertinence in a sustainability context.

3.2 Breakdown of Stakeholder Salience

3.2.1 Power

The first attribute of salience is power. Power is defined as "the ability of those who possess the power to bring about the outcomes they desire" (Salancik & Pfeffer, 1974: 3). Power is transitory and not permanent, and as such, can both be acquired and lost (Mitchell, Agle & Wood, 1997). This definition of power has its basis in Weber's idea that power is "the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance" (1947: 152), which is meaningful as it underlines the importance of the relationship between the stakeholder and managers. Mitchell, Agle & Wood (1997) argues that someone can have power, but unless they are aware of or willing to exercise power, they are not viewed as a salient stakeholder in the eyes of managers. Pfeffer & Salancik (1978) support the notion that power is important as managers draw attention to those who have access to critical resources.

The breakdown of power is based on Etzioni's (1964) three power sources. The first source is coercive power. Coercive power is the use of formal governance power and can be demonstrated in the form of threats and the use of force, legislation or legal procedures (Agle, Mitchell & Sonnenfeld, 1999; Etzioni, 1964). Threats can be both explicit and implicit. In a shareholder setting, coercive power could take the form of voting on AGMs or by replacing the CEO (Agle, Mitchell & Sonnenfeld, 1999; Gifford, 2010). The next source is utilitarian power, which is the power to reward or punish through financial means (Etzioni, 1964). Owners mainly achieve this through investing or divesting from an asset. This affects the target's ability to raise capital effectively which has an increased effect if managers have monetary incentives tied to the value of the firm (Gifford, 2010). The third source of power is normative power, expressed as actions that affect a target's reputation and those who can define and influence media attention have power (Mitchell, Agle & Wood, 1997). Parent & Deephouse (2007) emphasise that power is the most influential attribute, followed by urgency and legitimacy. Their findings also indicate that coercive power is the source that impacts salience the most within the attribute of power.

3.2.2 Legitimacy

The second attribute that enhances salience is legitimacy. In this thesis, legitimacy is defined in the same way as Mitchell, Agle & Wood (1997), originally from Suchman, as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (1995: 574). Legitimacy, in one way or another, is often related to power, and Davis explains that "In the long run, those who do not use power in a manner which society considers responsible will tend to lose it" (1973: 314). However, the authors accept Weber's (1947) argument that legitimacy and power are separate attributes, but together they can form authority or the legitimate use of power.

Drawing on Wood (1991), Mitchell, Agle & Wood (1997) divides legitimacy into individual legitimacy, organisational legitimacy, and societal legitimacy. Individual legitimacy stems from the credibility, expertise, experience and status of those engaging in the dialogue (Gifford, 2010). Organisational legitimacy is the organisation's credibility from the view of the market (Mitchell, Agle & Wood, 1997). This credibility originates from four different sources, where having a legitimate claim on the company in the form of a large enough influence and a high-risk stake is the first (Gifford, 2010). As such, organisations with either small ownership percentages, or organisations where the value of the ownership is insignificant to the overall value, can not be seen to have organisational legitimacy (Wood, 1991). Furthermore, organisational legitimacy also stems from shareholders' interests being aligned with the target's (Mitchell, Agle & Wood, 1997). However, as illustrated by the principal-agent problem, this is not always true nor perceived trustworthy by managers (Eisenhardt, 1989). Furthermore, an organisation needs to be viewed as a credible and respected member of the investor community it acts in (Mitchell, Agle & Wood, 1997). Lastly, different members of the organisation consistently communicate their priorities and views to be viewed as legitimate. Individual and organisational legitimacy are often interdependent as organisations are made up of individuals. The third area, societal legitimacy, is the community's view of an issue. This takes its form in normative arguments, which can be grounded in three areas. Either a shareholder reflects a position or opinion that is accepted in a community, there is a presence of norms or codes of conduct supporting the claim, or the politics and policies that are being formulated are supportive of the position that the stakeholder holds (Gifford, 2010).

Furthermore, Gifford (2010) adds the perspective of pragmatic legitimacy, which he draws on from Suchman (1995). Pragmatic legitimacy is to have a strong argument that the suggestion presented by a stakeholder is in the target's interest. An organisation achieves this by doing either of two things. The first is to have a strong argument that seems to interest the target. The second part is to provide management with new information that shows managers that the owner is knowledgeable. Furthermore, that information can act as a reinforcement of the argument presented. As an example, it could act as a strong business case if there will be a new type of regulation, and the stakeholder is viewed as pragmatically salient if they present it (Gifford, 2010). The use of shareholder rights undermines legitimacy, as the incentive to listen decreases (Hirschman, 1970; Gifford, 2010). Furthermore, the findings of Gifford (2010) also indicate that legitimacy is the most decisive of the three attributes in a sustainability context. Mitchell, Agle & Wood (1997) however argues that those stakeholders who have only legitimacy and not urgency nor power, there is no pressure on managers to engage in a relationship with.

3.2.3 Urgency

The third attribute of stakeholder salience is urgency. Urgency is defined as the "degree to which stakeholder claims call for immediate action" (Mitchell, Agle & Wood, 1997: 864). This is achieved if two conditions are met: 1) a relationship or claim is time-sensitive, and 2) the relationship or claim is important or critical to the stakeholder (Mitchell, Agle & Wood, 1997). Agle, Mitchell & Sonnenfeld (1999) suggest that the application of urgency is essential to maximise shareholder salience, although their study limits its focus on large, listed companies. Ryan & Schneider (2003) infer that active institutional investors are more successful in persuading managers because they enhance urgency. In contrast, pension funds, which managers do not think would sell an asset, fail to enhance urgency.

Time-sensitivity is defined as "the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder" (Mitchell, Agle & Wood, 1997: 867). In his study, Gifford (2010) argues that time-sensitiveness is not as prevalent in shareholder engagement, especially around environmental and social issues, as the inherent time frame of those issues is longer than those that Mitchell, Agle & Wood (1997) has in mind in their formulation of urgency. Nevertheless, Gifford (2010) suggests that urgency still can have an influential role, since it can focus the management's attention. Cobb & Elder (1972) discussed the role of symbols to create time-sensitivity, where the creation of a general sense of urgency in society can be derived from a call to action around an important topic that needs to take place close in time.

In addition to time-sensitivity, Mitchell, Agle & Wood (1997) point out that a stakeholder must view its claim on the firm or its relationship with the firm as critical for them to perceive the claim as urgent. They describe different areas that enforce why a stakeholder would view its relationship with the firm as critical. This definition, however, implies the subjective character importance of a claim, which Gifford argues is insufficient to test, as that would imply that a stakeholder "would be more influential if they care more" (2010: 82). He instead proposes that the areas that makeup criticality in shareholder engagement are the assertiveness of tone, persistence, and willingness to apply resources. Favourable assertiveness encompasses a calm, professional and business-oriented communication style and tone. Assertiveness is also a balancing act, as too much assertiveness risks reducing organisational legitimacy. Persistence over time could take its form in coming back to an issue multiple times over a longer time. Finally, willingness to apply resources in shareholder engagement entails the allocation of sufficient staff to the dialogue. As the purpose of this study also centres around shareholder engagement, the same argument provided by Gifford (2010) is applicable in the context of this thesis, and as such this study will use these proposed components of criticality.

3.2.4 Moderating Factors Affecting Salience

Three factors have an additional impact on salience, namely size of ownership, coalitions between owners, and the values of the target firm's management (Mitchell, Agle & Wood, 1997). The first factor is the size of ownership, where a larger ownership size makes the owner more valuable to listen to. The second factor is the creation of a coalition of owners, where owners forming coalitions are more likely to be listened to. This aligns with other empirical findings, where proposals by investor groups historically received higher shareholder support than individual investors (Gillan & Starks, 2000; Proffitt & Spicer, 2006). These two aspects are tied to power as they would have higher voting rights and, therefore, higher coercive power. The third factor is the values of a target's management, defined as "Management values are defined as the degree of overlap between the values expressed through the stakeholder claim and the values of managers" (Majoch & Hoepner, 2017: 726). Leaders imprint their firms with their own values (Wally & Baum, 1994), where similar values make management more positive in listening to a stakeholder (Mitchell, Agle & Wood, 1997).

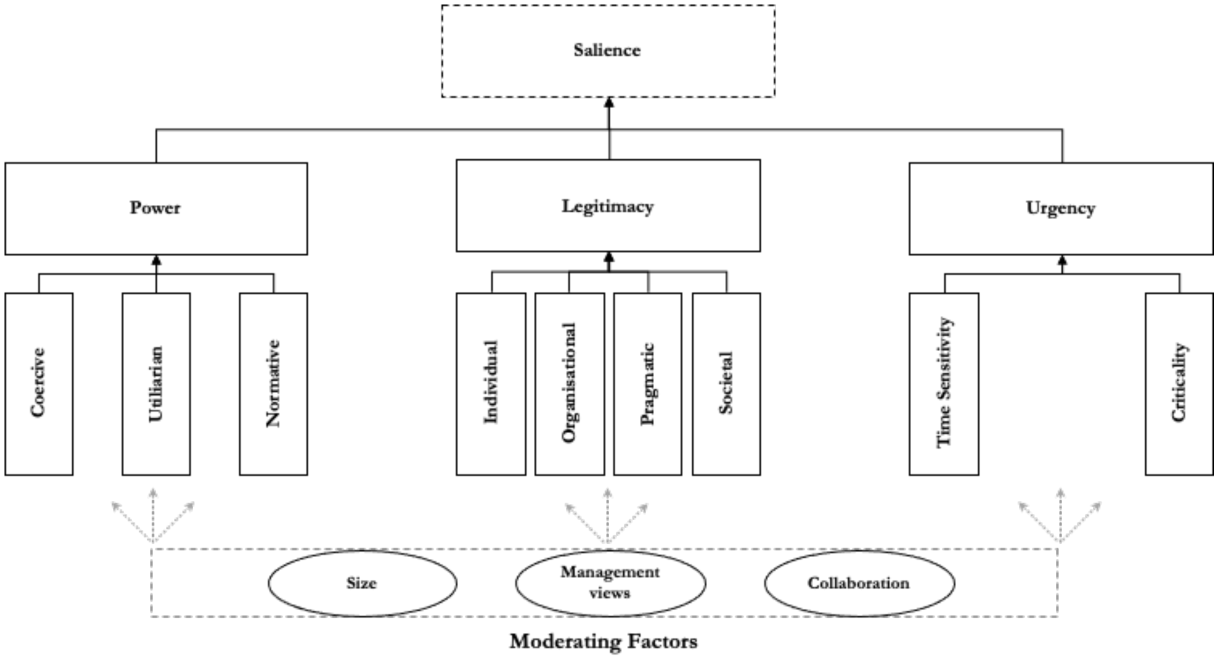

Figure 2 - Illustration of salience, developed from Mitchell, Agle & Wood (1997) and Gifford (2010)

4. Methodology

The following chapter describes the research methodology by first presenting the research design and approach and its fit with the study's research purpose and question (4.1). Thereafter, an outline of the data collection is described through the sections of sample, design and process of the interviews (4.2). A description of the data analysis is also presented (4.3) before quality considerations are discussed (4.4). Finally, the chapter ends with ethical considerations (4.5).

4.1. Research Design and Approach

4.1.1 Research Approach

Due to the research question aiming to understand and shed light on how owners enhance stakeholder salience to influence their respective target companies, the research approach was formulated to match the characteristics of salience purposefully. Since stakeholder salience is subjectively perceived and contextually dependent (Mitchell, Agle & Wood, 1997), an interpretivist perspective has been chosen by the authors, as an interpretivist perspective allows for understanding and uncovering of stakeholders or individuals' experiences and subjective reflections (Thanh & Thanh, 2015). The interpretivist perspective allows for consideration of the context in which humans act (Baxter & Jack, 2008; Crabtree, 1999). This is important as social reality is shaped by the intersection of humans and the context in which they act (Crabtree, 1999). Moreover, the authors chose to conduct a qualitative study, in line with the interpretivist perspective, as the qualitative research approach is more appropriate when the emphasis is put on researching the relationship between two stakeholders (Bryman & Bell, 2015). Furthermore, this also entails that the participants in the study and their reflection is the central area of interest and not necessarily the output of any specific fact that might be obvious (Fylan, 2005). Since the scope is to focus on the relations, there is also an emphasis on the viewpoints and perspectives of the companies and, more specifically, the individuals working in these companies (Bryman & Bell, 2015).

Furthermore, this study relies on an abductive approach, which combines existing theories and the formulation of emergent insights and concepts (Bryman & Bell, 2015; Yin, 2009). An abductive approach thus enables constructs derived from previous literature whilst still enabling room for emergent insights and concepts (Yin, 2009). The process, therefore, entailed a combination of continuous development between theory and empirics in an iterative process. This enabled the authors to revise the theoretical framework and the questions asked in the interviews in the process. As the purpose was to investigate how owners enhance salience around sustainability in unlisted firms and then compare it to listed, the purpose was not to confirm already existing theory but to extend it in a new environment where the prerequisites were unknown, and the abductive method was regarded as the best method to fulfil the research gap (Dubois & Gadde, 2002; Yin, 2009).

4.1.2 Multiple Case Study Design

To conduct a study in accordance with the purpose of this thesis, the authors chose to conduct a comparative case design (Eisenhardt, 1989; Yin, 2003). This study follows a multiple case study design to collect and analyse empirical data (Eisenhardt, 1989). Multiple case studies are appropriate for answering research questions in unexplored research areas (Stake, 2013; Yin, 2003). Research around salience within unlisted companies is limited, so the case study method was favoured to explore the research question. The reason for conducting a multiple case study was partially grounded in the characteristics of salience (Mitchell, Agle & Wood, 1997) and its limited application to unlisted assets. Conducting a single case study would provide insights into how that company works (Easton, 1995). However, only looking at one company in its specific environment would not answer the research question (Stake, 2013). The thesis thus included various engagement relationships between owners and targets. The reason for interviewing both owners and targets was that there might be a discrepancy between how the owners state they work and how the targets believe they work (Mitchell, Agle & Wood, 1997). Before the interviews, data from the company's web page and internal data, such as policy documents and governance reports, were collected by the authors (Stake, 2013). These are also used to describe specific processes owner firms use and requirements they might have. Furthermore, the thesis needed to cover different types of owners to provide diversity across contexts as different owners exist in the universe (Creswell, Hanson, Clark, Plano & Morales, 2007; Stake, 2013), albeit this study does not aim to provide a representative view on how all actors work but having a large enough selection to reduce the risk of not having enough diversity (Stake, 2013). Furthermore, to be able to provide a thorough perspective and to fully understand the dynamics of how the owners work to increase salience, the relationship between the target and its various owners ought to be investigated, by conducting interviews with at least two of the largest owners that a target firm has. (Vaughan, 1992; Patton, 1990).

4.2 Data Collection

The data collection describes how empirical data was collected to answer the research question and includes interview samples, interview process and interview design.

4.2.1 Selection of the Interview Sample

The selection of interview participants was made based on their relevance to what was being studied and not on their representation of a sample, in accordance to how case study samples preferably are chosen (Stake, 2013; Braun & Clarke, 2013). For owners, the first criterion was that the owner is among the five largest owners or has an ownership stake exceeding 5% of a target firm. This is to make sure that they have a substantial claim on the company. The second criterion was that the owner has an outspoken strategy to be an active owner. These criteria were selected based on the company's external communications and upon contact with the owners. The third criterion was that the owner is a financial investor exposed to both listed and unlisted companies. A financial investor is an investor who primarily invests in a firm because of the potential gains, and not for a strategic reason. This selection criterion ensures that the investor does not have other interests in their engagement (Masulis & Nahata, 2009). Selection criteria for the unlisted firms were also formulated. The characteristics of the firms chosen are segmented on the kind of owner and the elements above. The first criterion for target firms is that no single owner owns at or above 50% of the target firm. The underlying reason is that when an owner owns more than 50% of all the shares, the dynamic between the different shareholders shifts as that majority owner, in effect, can decide for themselves (McNulty & Nordberg, 2015). The second criterion is that the target firm must have at least two external owners, to be able to interview several owners of a certain target. The third criterion is that the target firm should have at least 100 employees, allowing the target firm to have a large enough organisation for it to have an impact on sustainability-related factors. As such, these criteria enable the authors to research the type of target firms that most owners in the unlisted space in Sweden invest in (Tillvaxtanalys, 2020).

The six owners who were selected are all within the top ten largest investors in the Swedish unlisted space, defined as the amount of money invested. They all qualify within the selected criteria and can be seen to cover a large part of the market. The selected target firms operate in various industries and can therefore be seen to cover a diverse part of the unlisted world. For a description of the firms interviewed, see table 1.

Company Acronym	**Company Description**
Pension Co	One of Sweden’s largest pension providers. They have an outspoken part of their investment strategy to invest in unlisted assets. Does usually not take board seats.
Investment Co 1	A publicly listed investment company with a substantial part of their investment in unlisted assets. Has a long history as an established owner in Sweden. Has a board representative in most holdings.
Investment Co 2	A publicly listed investment company, with a substantial part of their investment in unlisted assets. Company has relatively few employees, and is in the media synonymous with their largest owner. Has a board representative in most holdings.
Venture Capital Co 1	A venture capital fund mainly investing in unlisted assets. Sometimes help targets operationally. Has a board representative in most holdings.
Venture Capital Co 2	A venture capital fund mainly investing in unlisted assets. Very large organisation with many supportive functions, including in sustainability. Has a board representative in most holdings.
Venture Capital Co 3	A venture capital fund mainly investing in unlisted assets. Relatively small organisation where the partners are responsible for the engagement. 1Has a board representative in most holdings.
Target 1	Subscription software company within an industry where intellectual property rights often is the main asset. Mainly indirect emissions from its operations. Sustainability is integrated in other roles and does not have a dedicated team. Founder is one of the larger shareholders.
Target 2	Company within transportation, the main focus is on working rights and emissions from direct operations. A relatively small company which has a dedicated sustainability team with several employees. Founder is one of the larger shareholders.
Target 3	E-commerce company selling goods, mainly focusing on working conditions and emissions from its operations. Has many warehouse workers, but outsources transportation. Has a dedicated sustainability department. Founder is one of the larger shareholders.
Target 4	Consumer company that is selling goods, mainly focusing on emissions from

	transportation, purchasing and more environmentally friendly product mix, and working conditions. Sustainability is integrated into other functions and does not have a dedicated team.

Table 1 – Description of Cases

A total of 16 interviews were conducted. The number of participants was not determined beforehand, but was instead decided when little new supplementary data could be found by conducting additional interviews, which is often seen as the preferred method in multiple case studies (Stake, 2013). These interviews vary from 45-and 60 minutes long, and the total time was 880 minutes, corresponding to over 210 pages of transcribed material. A list of all interviews conducted can be found in appendix 1. An overview of the relationship between the different companies interviewed is seen in figure 3.

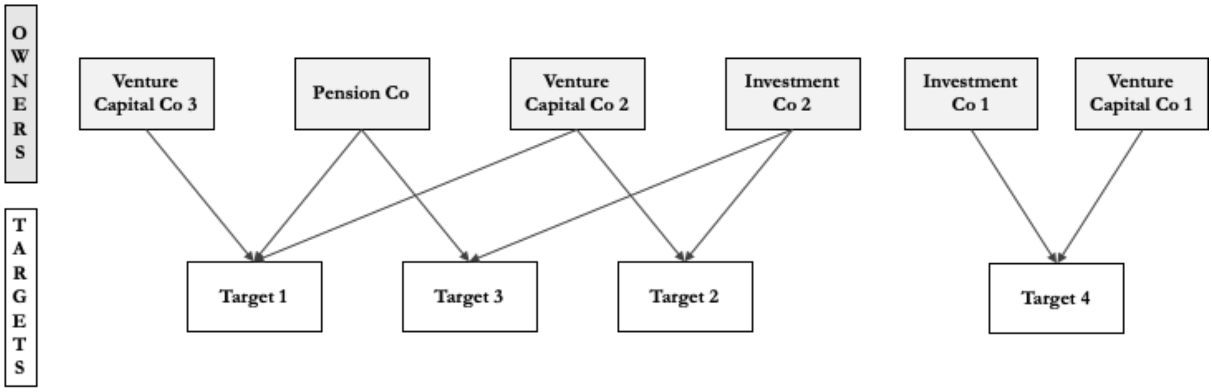

Figure 3 - Overview of Relations Between Cases

4.2.2 Interview Process

The authors intended to perform all interviews in physical meetings between the authors and the participants, as it is proposed to provide a richer understanding of the answers provided compared to digital environments. For example, body language might not be as straightforward or apparent in a digital compared in a physical meeting (Bryman & Bell, 2015). Other studies suggest that conducting interviews from a remote location can be a suitable alternative to doing on-site interviews (Smith & Schneider, 2015). Because of the pandemic, all interviews except one interview were conducted through digital communication tools. Despite the situation improving and the Swedish authorities reducing the formal requirements to work from home, the companies' interviewed had policies making it challenging to meet physically. To mitigate the potential negative complications of conducting interviews through digital means, all interviews were conducted with all participants having their cameras switched on and in a position where every participant could observe the body language and facial expressions of the other participants.

The interviews were conducted in the native language of the interview participant to reduce the language barriers that might affect the responses (Baumgartner, 2012). The interviews were held in both Swedish and English, and the authors recorded each session with permission from all interview participants. This enabled transcriptions to be conducted after the interview, which was done manually to ensure that the transcription was performed correctly. About half of the interviews were conducted in English, and the other half in Swedish. In the instances where interviews were held in Swedish, quotes have been translated by the authors into English, where abbreviations and terms changed into their English counterparts, in accordance with the consent of each participant. Both authors were present in each interview to mitigate the risk of bias in the translation of answers providers. One pilot interview was conducted with an owner within the selection criteria to test the length of the interviews and formulation of questions to ensure a higher quality of the interviews conducted in the study. The companies and their participants were anonymised to ensure confidentiality between different relationships. This allowed for richer answers as some participants regarded their answers as company critical information (Bryman & Bell, 2015). Within each engagement relationship, the participants were aware of the other companies interviewed as it was required to conduct the interviews. This was communicated to the respected participant before each interview was held.

The process for determining the relevant participants at each firm was formulated prior to reaching out to the respective firm. The author's intent was to interview both the person in charge of sustainability overall at each firm and then the person who was engaged in the owner-target relationship tied to sustainability. Including the person responsible for sustainability was to get insights into vital information about the firm's view on sustainability. Moreover, to understand the intention and shape of active ownership and then dig deep into the engagement work, the respective responsible person for the relationship between the owner and target was interviewed. The authors managed to interview the person directly engaged in the dialogue. Selecting participants within each firm was therefore dependent on how the respective firm's sustainability work was conducted. Sometimes the person responsible for the dialogue and sustainability was the same person, as in the case of Venture Capital Co 1, 2 and 3 and Target 1, 2 and 4. In other instances, the roles were separated, as in Investment Co 1 and 2, Pension Co and Target 3. In these instances, some interviews were conducted with both responsibilities present at the same time to map out the relationship between the roles effectively. In other cases, the interviews were conducted one at a time. The interviews were mainly conducted sequentially before another relationship was investigated to mitigate the impact of different relationships on the data interpretation. Before each interview, research on the company's practices was made and each firm's ownership stake, and included governance reports and available sustainability information. Prior experiences of the interview participant were also explored. This enabled the authors to be well prepared for the remarks and situation-specific comments the participants brought up in the interview, which enabled the authors to ask follow-up questions in harmony with the answers provided (Stake, 2013).

4.2.3 Interview Design

Conducting in-depth interviews was arguably the most suitable option to research how owners work to enhance salience in unlisted assets, to enable in-depth responses about the employees' perceptions, feelings and experiences (Braun & Clarke, 2013; Bryman & Bell, 2015). Semi-structured interviews allow for greater flexibility as questions can be adapted and follow-up questions can be added. At the same time, following a pre-developed interview guide as the foundation in each interview guaranteed to have enough comparable questions to develop and detect joint threads from the interviews. The authors developed an interview guide before each interview (see appendix 2 and 3 for examples). To a large extent, these were developed based on the theoretical framework, following the factors and breakdown thereof by Mitchell, Agle & Wood (1997). To make sure all aspects were covered, the hypotheses formulated in Gifford (2010) in which he studies the extent to which each factor of Mitchell, Agle & Wood (1997) subfactors are worked with to enhance stakeholder salience around sustainability worked as a guide to ensure a thorough set of questions. Using a combination of pre-formulated questions and additional ones on a contextually relevant basis in accordance with the semi-structured approach, allowed the authors to collect more extensive and relevant data (Braun & Clarke, 2013). Semi-structured interviews were considered the relevant approach as the purpose of the thesis was to investigate how owners work to enhance salience in unlisted assets and then compare it to listed assets. All questions were explicitly formulated in an open-ended fashion to ensure the reduction of bias in the answers and enable the respondent to provide thorough and detailed answers (Kvale & Brinkmann, 2014; Bryman & Bell, 2015).

4.3 Data Analysis

To conduct the data analysis, a thematic approach was chosen (Bryman & Bell, 2015; Stake, 2013). This was grounded in a thematic approach which was undertaken through classifying data into subthemes, allowing for detailed data (King, 2004). It also allows for comparability between the cases, in which similarities and differences can be highlighted and built upon (Stake, 2003). This structured working lead also means it would become easier to align and cross-analyse data (Eisenhardt, 1989). The thematisation was not initiated until a majority of the interviews had been held to ensure that there was no limitation in focus and to give each interview an equally important role (Stake, 2013). The first phase of the thematisation was to enable comparison between the interviews by the transcription of the analysis. The Swedish interviews were translated into English before the triangulation, thus having the data in the same language and format (Hambleton, 1993). After completing the data collection, the population of themes was initiated through the triangulation of data (Bryman & Bell, 2015; Stake, 2003). This work was first conducted individually by each author and later compared to increase the quality of the thematisation (Nowell, Norris, White & Moules, 2017). This thematisation originated from the basis of the theoretical framework and the subcategories that build up stakeholder salience (Bryman & Bell, 2015; Stake, 2003). This enabled the authors to compare the work of enhancing salience between unlisted and listed assets while simultaneously identifying noteworthy differences that were not distinct in theory around listed assets.

4.4 Quality Considerations

An interpretivist study is preferably assessed based on the degree of trustworthiness (Bryman & Bell, 2015; Guba & Lincoln, 1994). The degree of trustworthiness can be assessed along with four key criteria: credibility, confirmability, dependability and transferability (Lincoln & Guba, 1985; Bryman & Bell, 2015; Wallendorf & Belk, 1989). Therefore, the quality consideration has been to formulate and structure the systematic process based on these four principles.

4.4.1 Credibility

Credibility refers to how a researcher's perceptions of the material match those of the participants (Lincoln & Guba, 1985). Credibility ensures the insights generated by the data collection with an unbiased stance. In this paper, credibility is enhanced by respondent validation where the thematisations and quotes were shared with the participants, after which the authors received approval for the use of quotes. This way of working guaranteed a correct interpretation of the author's notes aligning with those that participants stated. Quotes could only be erased if they were seen as misinterpreted or too specific for a firm, not if it was seen as something affecting the view a reader might have on an owner. Moreover, there are discussions in the academic field about the multiple-case study approach and its limited focus on any one case (Bryman & Bell, 2015). In this study, the authors took steps when conducting the multiple-case design so that at least four owners or three targets were asked all questions that were not contingent on the specific conditions of that owner. As a result, there was always data from over half of the respondents to conduct analysis from, which served as a validation that the insight drawn was validated from different perspectives (Stake, 2013). This methodology and way of working were sufficient to interact with the parties involved in the study (Bryman & Bell, 2015).

4.4.2 Confirmability

Confirmability ensures that the subjective views of the researchers do not affect the collection, analysis and display of the data (Bryman & Bell, 2015). Furthermore, from a confirmability perspective, the research process followed a semi-structured interview process with open-ended questions used throughout the interview process. Asking open-ended questions ensured that the authors did not lead the participant to answer in any specific direction, which increased confirmability (Bryman & Bell, 2015; Lincoln & Guba, 1985). In addition, by asking several owners the same questions and conducting triangulation, the risk that the view of the participant held by the authors influenced the data gathering and the analysis, was reduced (Wallendorf & Belk, 1989). Follow-up questions provided a chance for the respondents to clarify and develop their answers. Several employees from the owner or target were interviewed when the engagement efforts included several people, thus reducing the risk of biases from the author's and further certifying the confirmability (Bryman & Bell, 2015).

4.4.3 Dependability

From a dependability perspective, which incorporates a study's systematisation, traceability and documentation (Wallendorf & Belk, 1989; Lincoln & Guba, 1985), the authors followed a transparent research process throughout the research project covering the data collection and data analysis phase as described in previous methodological sections. Close collaboration with the supervisor supported the research project, and constructive feedback could be inducted into the research project. The research process has been mapped out, the method could be repeated, and as such, achieving a sufficient degree of dependability is achieved (Bryman & Bell, 2015).

4.4.4 Transferability

One area often questioned when conducting case studies is that it can impede transferability (Bryman & Bell, 2015), as the transferability criterion serves to evaluate quality by assessing the results and applicability of the study to other settings (Lincoln & Guba, 1985). The research project data collection comes from the largest financial investors in the unlisted space in Sweden and their portfolio holdings. All in all, the owners interviewed were from the three main owners of unlisted assets (Tillvaxtanalys, 2020), namely Venture Capital, investment companies and pension companies. Furthermore, the targets interviewed had different focus areas within sustainability, different ownership profiles and operated in different industries. In addition, participants in the study provide an in-depth picture of how they work. Many other owners and their portfolio companies are the most well-known in their sector, contributing to the overall depth of their participation in the study. As such, researchers who, in the future, research salience in unlisted assets in a sustainability context should, with the purpose and delimitations of this thesis in mind, be able to consider this thesis as transferable (Bryman & Bell, 2015).

4.5 Ethical Considerations and Implications

The authors considered several ethical dimensions to increase the quality of the thesis, first and foremost about, informed consent. As such, all participants had agreed to participate in the thesis. It was also made clear before consent was given that the material gathered from participants would only be used following the purpose of this study. As such, GDPR was followed, and all recordings were deleted. Upon every interview, each respondent also gave consent to the authors recording each interview for transcription purposes, which all participants agreed upon. The information provided prior to giving consent also included participants being informed of anonymity. Anonymity ensured that this thesis followed university policy, but was also mentioned by interviewees to be necessary for them to elaborate their work, as they saw certain areas as important competitive information. That is why the authors communicated the prerequisites for participating and the purpose of the study prior to the participant's decision (Bryman & Bell, 2015).

5. Empirical findings

This section outlines the empirical findings from the conducted interviews by laying out different themes within the engagement, highlighted through various quotes by the different participants. The structure follows the common denominator derived from the thematisation for how the engagement is structured by the owners. Owners' work primarily depends on the phase of the engagement strategy and whether it is a proactive or reactive engagement. As such, this chapter begins by describing how active ownership is initiated and the implications for future relationships (5.1). After the engagement is established, the work is ramped up by aligning the owners' views with managers', and clarifying incentives and ways of working with sustainability (5.2). Owners' ongoing engagement mainly focuses on proactive activism which is viewed as the primary part of the work, although reactive activism sometimes is undertaken. Ongoing engagement mainly takes the form of private engagements, and therefore, a dedicated part for the role of public engagement is also included (5.3).

5.1 Initiation: First contact and Relationship Establishment

All the owners interviewed had the intention from the start to be active owners through private engagement and made that clear to the targets prior to the potential investment. Both owners and targets emphasise sustainability as a dominant part of the investment decision phase, where the target firms' managers and other owners are evaluated, respectively. This is the initiation phase of the engagement which, as the interviewees explain, is enabled by a specific prerequisite that is more prevalent in unlisted assets. Ownership, they explained, is mainly acquired through new investment rounds and not through traditional stock exchanges. As such, the board of the target firm can often decide who will invest. Furthermore, in the instances where the ownership is acquired through the purchase of old shares, the purchase of stocks usually occurs through discussions between current and potential owners. That discussion is commonly facilitated by the target firm, which has the most extensive network and highest relevance to potential new owners, and consequently, there is also an opportunity for assessment in these purchases of unlisted assets.

5.1.1 Stakeholder Assessment is the Start of the Engagement

The due diligence, or investigations made by a stakeholder before an investment, that is conducted in this initiation phase lays the foundation for dialogue as it evaluates the different stakeholders that will engage in the active ownership done with managers and serves as the starting point for the future engagement. The dialogue is initiated in this phase, as discussions are had between managers and potential owners about essential parts of the business surrounding this investigation. The assessment between stakeholders occurs in this phase, as it establishes common ground and the foundation for future work and what to focus on in terms of sustainability and is seen as crucial. The participants stress the importance of a sound due diligence process to allow for a good dialogue in later stages. Owners emphasise that a lot of the work for ensuring the impact that can be had later is done in the due diligence process. They tend to identify areas for improvement for potential investment. After identifying important sustainability areas, a crucial step is to understand the management views around sustainability. This is seen as vital to ensure that dialogues can be facilitated in a good way.

> *"I think the work starts even before we invest in them. What also happens is that once we start asking these questions, they already know that sustainability is something we are looking at and prioritise. Hence, the work starts already there." (Head of Sustainability, Venture Capital Co 2)*

The targets also emphasise the clear advantage of knowing that owners believe sustainability is important from the start.

> *"It was very clear from the start when Investment Co 1 invested that they saw a need for us to implement a sustainability strategy. They also wanted us to investigate and report the carbon emissions we had so we could see and act on them." (Head of Sustainability, Target 4)*

The owners emphasise that they try to invest only in companies that they know have the same view on sustainability and where there is an underlying commitment to sustainability. For example, the CEO at Investment Co 2 mentions that many of the companies they choose to invest in have focused on sustainability, as the companies are relatively young. The founders too have a significant commitment to sustainability.

> *"I think it is a natural thing for many of them to focus on sustainability. Regardless if we take the founder of Target 2 or the founder of Target 3, they have built their companies in a time where sustainability has been a theme more or less from the start." (CEO, Investment Co 2)*

Another reason for the emphasis on alignment of shared beliefs is that the founder in these types of target businesses often has an influential role in the firm. All targets emphasise that the founder serves as a thought leader, and sometimes also as a large owner. The owners see the founder as important, and therefore it is important to make sure that the values are aligned.

> *"Sustainability must permeate our values and organisation, which can be difficult to achieve if it does not feel like something we truly believe in. And my experience is that the founder is extremely leading in that work, both as an owner and as a CEO." (Head of Sustainability, Target 3)*

In parallel to the owners' investigations, the target firms conduct due diligence of the owner. One effect of targets being the decision-maker for who can invest is that target firms can reach out to different investors. For example, the Head of Alternative Investments at Pension Co described that many targets reach out to them because of their previous experience, especially around governance factors. As a consequence of targets evaluating owners, owners believe their image around sustainability is crucial as owners want access to the best investments. Therefore, most owners express that they try to enhance the view that the community has of them. The targets also mention as they sometimes are coupled together with their owners, they view the owners' sustainability work as critical.

> *"Who we have as owners is crucial. It is also important for our brand. If we took in a questionable owner, it would be terrible for our brand. Moreover, internally, it could shake the values of our firm. That is why we do a thorough analysis of potential owners." (Head of Sustainability, Target 1)*

All targets emphasise that evaluating an owner firm's sustainability commitments serves as a good indicator of the true values of the owners, which is why positioning the owner in a favourable way is a large part of the work owners undertake to increase management's willingness to prioritise them. For example, the Head of Sustainability at Venture Capital Co 1 says, "It is imperative because otherwise, we are not trustworthy. We need to put our money where our mouth is". This is something that many of the companies interviewed stressed as crucial.

> *"An obvious way to demonstrate that sustainability is important is that the owners themselves work hard with their sustainability work. It is at least equally important as them having clear demands on us. They have to live as they learn. We have also taken much inspiration from our owners." (Head of Sustainability, Target 4)*

> *"It would be peculiar if owners preach that their respective target firms should do something related to sustainability, if we as owners would have advanced tax schemes in tax havens and fly private jets here and there. It is hard to argue that a target company should do anything if we manifest the opposite thing." (CEO, Investment Co 2)*

The General Partner at Venture Capital Co 3 describes that they only invest money from institutions that themselves care about sustainability and decline money from regimes with questionable democratic processes. It emphasises being able to communicate with targets in a way that is trustworthy all the way. Furthermore, Investment Co 1 emphasises that to be trustworthy, it is very material that they as a firm also show that they care about sustainability.

> *"You cannot fly to the meeting and then expect that they should take the train when they come and see us. Some investors do that, and that is not good. However, we have noticed that people see and value that we care about this, and it is starting to have a real impact on us." (Head of Sustainability, Investment Co 1)*

When comparing the view a target has on the owner firm as a whole, targets say that they are often inseparable vis a vis the individuals that represent the owner firm. The CEO of Target 3, for example, highlights: "The organisation is constituted of the people, and the people constitute the organisation". Owners however emphasise that when choosing owners and in the establishment phase of engagement and dialogues, a large emphasis is put on making sure that both the organisation overall is viewed as favourable and that the people they work with have shared values. The targets evaluate the owners based on competencies within sustainability in combination with experience within the sector. Sometimes this matchmaking work is difficult as sustainability is vast, and the owner firm lacks certain niche skills. In these instances where owners can not present sufficient knowledge, most take in external consultants to help them, and as such maintain the view that they are knowledgeable. Targets actively exclude owners where the organisation's horizon is not long-term, and those with whom they interact are likely to leave their current roles.

> *"You choose the owner based on their reputation as good owners. You want those you know where the organisation is long-term, and its people are there to stay. Because what if someone quits their role, and we have to establish an entirely new relationship again, and it does not work out? We carefully select owners with strong values because then the risk of having to go through that is reduced." (CEO, Target 3)*

The evaluation before an investment also occurs between the different owners. All owners emphasised the importance that the other owners involved had a shared belief in the importance of sustainability. Otherwise, there is a risk that it becomes more challenging to convey a unified message to the management. Sometimes one owner can recommend another for a future round. Recommending someone that the owner perceives to be good can enhance their reputation both within the eyes of management and the investing community overall. This is agreed upon by the targets too. As such, owners are cautious when they provide access for targets to potential owners, as it reflects on them. Consequently, the ownership structure and the parties involved are also something people mention they put great weight into in the investment decision. They do not risk having dialogues with companies and parties they do not agree upon.

5.2. Ramp up: Formulating the Sustainability Work

All owners highlight that since unlisted companies have fewer steering and reporting functions, these are focus areas where the work starts, to be able to resonate focus and have a shared view. Therefore, the ramp-up work also includes how owners work to align the incentives between owners and managers within sustainability. This is also the phase in which discussions around goal setting are had.

5.2.1 Focus on Reporting and Aligning Incentives

All owners believe that they, as active owners, can help build better steering functions, which is seen as one of the areas where owners can contribute the most. Information sharing is easier in unlisted assets where insider rules are less prevalent, which has reduced the need for targets to prioritise formal reporting functions. As such, information flows more freely and in other ways. Listed companies need to disclose information relevant to the public market because of insider rules, whereas unlisted companies are not under the same regulatory pressure.

> *"In listed companies, we need to focus on the media. It is also a bit trickier with listed companies because there are rules for what you can and cannot say, or we are not allowed to say because it could be considered insider information in a listed environment." (CEO, Investment Co 2)*

Owners also point to targets having fewer owners, resulting in increased possibility of easier coordination between different owners and the management team. Consequently, more extensive information sharing in the unlisted market has led to decreased prioritisation of internal reporting functions around sustainability. This is seen by owners as problematic since reporting and access to similar data is a requirement for alignment. The Head of Sustainability at Pension Co mentioned that as a pension fund, they have a solid reputation in public markets and can help formalise the governing functions at the target companies. Many of the companies that Pension Co are in contact with have implemented sustainability strategies during their tenure. The argument brought forward by owners to increase targets' prioritisation upon reporting functions is that many of these companies are on track to becoming public sooner or later, where the regulatory dimension comes into scope. Furthermore, there is a more significant potential for improvement when less work has been done. The sustainability Director exemplifies this at Investment Co 1, who says: "We see that is an opportunity for us", as Investment Co 1 then can guide them on the journey, allowing for a more considerable impact, and building a better image.

One part all owners focus on when formulating the sustainability work is to increase the commitment and get management buy-ins into the goals and work that is undertaken. The owners believe it is crucial to influence management, as they are on the same page. Another reason mentioned is that the owners can not drive the work themselves, instead it needs to come from the target organisation. The Head of Sustainability at Venture Capital Co 2 highlights the importance of getting management buy-ins.

> *"What we have seen is that sustainability often is just a bottom-up approach or just a top-down approach; what you need ideally is a sandwich approach. Furthermore, what helps in this journey is having a top management focus. I have worked in companies with much bottom-up focus but not ultimate management focus. Moreover, despite everybody else working very hard on it, it never resulted in any actual achievements because the ultimate management focus was not there." (Head of Sustainability, Venture Capital Co 2)*

Without management buy-in, owners argue, even the best sustainability initiatives in a firm will never materialise. Therefore some owners work with incentives, which also has the benefit of providing clarity to targets about the owner's priorities. A way to get management buy-ins is by setting goals. Owners try to increase management buy-ins by letting them formulate the goals and the priority areas, to ensure top-management focus and instil a sense of ownership.

> *"We rather ask them to articulate what goals they want to achieve and what focus they want to have, instead of formulating it for them." (CEO, Investment Co 2)*

5.2.2 Making Sustainability Top of Mind

Some owners have clearly defined how they work with sustainability, whereas others have a more ad-hoc approach, building the work on tacit knowledge and previous experience. Regardless of approach, all owners stress the importance of making the work feel adapted to the manager's respective situation to make them willing to listen. One company that has a clearly defined method of how to work is Investment Co 1. They make it very clear to the target companies that they need to report certain metrics. At the same time, all representatives from Investment Co 1 emphasise that the key learning they have drawn is that they need to adapt their work and their requirements depending on the phase companies are in for managers to believe that the owner is relevant. This is especially important, the interviewee says, in unlisted assets, where both the sustainability focus and the phase can differ greatly. One important part when setting the scope is to find out what is material for each company and from there align what needs to be prioritised by the management team. Before an investment, the owners often create and formulate a value creation plan covering sustainability measures to maximise value, which is helpful for future engagement. This they later share with the targets, which is seen as highly valuable as targets often have limited resources to conduct similar reports.

> *"We share the sustainability due diligence report with the management, the board and the senior management, which already acts as opportunities for improvement." (Head of Sustainability, Venture Capital Co 2)*

One challenge most owners raise is that there are many different reasons why target companies engage in sustainability. There are people at both ends of the spectrum, where some people care about sustainability, whereas others see it most as risk minimisation and only want to tick the boxes. This is not made easier because sustainability is constantly evolving. That is why many participants, such as the Legal and Sustainability Director at Investment Co 1 emphasise the importance of continuity. The primary reason they have structured sustainability work is that it enables sustainability to constantly be kept on the agenda. This also helps them prioritise sustainability work and gives structure, which builds consistency and stability over time. Participants from target firms underscore that when owners come back to issues over time, it sends a strong signal that it is a focus area that needs to be prioritised.

Some owners believe continuity can be achieved without having a structured process around sustainability. Processes, some argue, are decreasing the adaptability to a target's needs and, therefore, their incentive to listen. Instead, Investment Co 2 builds its work on tacit knowledge and the board's current discussions, which he believes makes sure that the company focuses on issues that management views as crucial to the business's success.

> *"We have it [formal processes] at the level of investment decisions and when we follow up the work, but that is where the smallest common denominator stops. All targets are different and have their prerequisites. They are companies doing different things in different industries, so I think it would be strange if many questions would be suitable to push all our targets simultaneously." (CEO, Investment Co 2)*

Owners' views partly diverge surrounding how integral sustainability should be in other departments at target firms, compared to having a dedicated department. For example, investment Co 2 focuses on integrating sustainability in the operations and being an integral part of the business rather than implementing and focusing on the reporting aspect. One way to keep sustainability top of mind is to appoint someone in charge of sustainability. Helping target firms to find talent is also seen by the Head of Sustainability at Target 1 as one of the things an owner can do to build credibility the most. However, many owners stress the importance of instead having that function integrated into the rest of the company's work.

> *"You cannot only appoint someone as responsible and believe that the issue is fixed. Many companies have chosen that model. I, however, think it better to focus on the particular subject in every integration at hand should be an integral part of everything we do. That also goes for sustainability." (Venture Capital Co 3, General Partner)*

Targets emphasise that if an owner can present arguments that they perceive is adapted to their situation and owners showcase a feasible implementation road for how the sustainability department can be designed, they are willing to reassess their current approach. Irrespective of which approach is eventually chosen, appointing someone responsible for keeping sustainability on the agenda is seen as vital by owners.

5.2.3 The Role of Goal Setting

An area where owners and targets spend much emphasis on the engagement is goal setting around the work within sustainability. This includes whether the company should have goals, how far off in time they should be, and whether incentives should be tied to the goals. As an example, Investment Co 1 has dedicated a part of the bonus pool to sustainability targets to make it clear that this is an important matter. Fulfilling several requirements, such as gender equality, is also a prerequisite for getting follow-up investments from them. Clarifying that this is a demand can be a very effective steering tool, emphasised both by Investment Co 1's and by the targets. Most participants agree that incentives tied to goals can be significant.

> *"Incentives tied to goals can have the advantage that it pushes for certain changes and that the change can happen much faster. It can have the advantage of drawing attention to an issue that might not otherwise get as much attention as it needs." (Head of Sustainability, Target 2)*

Nevertheless, many participants also problematise incentives tied to goals, including those who perceive it effectively. The main argument is that people might try to fulfil the goal instead of thinking about why the goal is there in the first place.

> *"I think it is complicated to connect a sustainability target to a KPI, as our business environment is changing so much." (Head of Sustainability, Target 2)*

Many respondents underscore that the goal must be viewed as fair. Moreover, since the business environment changes so much, in combination with people's roles changing as the company grows, it is difficult for them to set up efficient goals. As an example, Venture Capital Co 1 believes that Science Based Targets could be a phenomenal way for targets to showcase their commitment to sustainability, but it is difficult to implement because of unlisted assets changing the way they are.

> *"Many types of goals do not work in these companies. Target 4 is growing more than 20% per year, but Science Based Targets require an absolute CO2 reduction. So Target 4 will be 5-10 times bigger in 10 years and need a 95% reduction, which is unreasonable and is not possible. Science-based targets do not work for many fast-growing companies." (Venture Capital Co 1)*

Achieving fairness in goal setting within sustainability is perceived as very difficult, leading to few incentives being tied to the goals. Several participants believe that there is a risk of creating goals that are not beneficial for the organisation. A struggle owners express is how to demonstrate to managers that goals can be effective without being able to provide accountability for goal setting as owners want to avoid ending up in situations where the targets have set the goals, but the little incentive is explicitly tied to the goal.

> *"What happens if someone does not fulfil the goals? Well, no, quite frankly, there is not a lot that would happen." (Head of Sustainability, Target 4)*

Targets therefore perceive owners to partially fail in providing strong arguments for goal setting. Similarly, working with goals very far into the future is viewed as pointless, as it is difficult to tie it to today's operations.

> *"We are a quite fast-changing and fast-paced company that is growing very much, and we think it is quite uninteresting to spend time and resources guessing about how things will turn out in quite a few years in the future." (Head of Sustainability, Target 2)*

Targets emphasise that goal setting with specific time frames is not crucial, and instead state that time and effort is committed when targets see clear benefits. Owners consequently put less effort on goal setting and more emphasis on the benefits of engaging in sustainability by illustrating why sustainability is material and making sure that it is a topic that is viewed as essential. Owners sometimes use moral arguments to increase the feeling of managers that sustainability is vital. It is a necessity, owners explain, to harmonise the view of owners so that the management can get a more harmonised picture of what owners want. This builds credibility to the prioritises that are presented, as management then knows what owners feel is most important. This is, however, something that owners believe is an area where improvements can be made.

> *"In 2022, we want to try and have more of these conversations with our co-investors so that, A, we are on the board, which is important, and B, we can come together. Investment Co 1 has something, Venture Capital Co 2 has something else, and then General Capital comes with something else. We want to be aligned. Imagine, as a business CEO, you have to deal with three different frameworks or priorities and stuff." (CEO, Investment Co 2)*

Collaboration to align on a sustainability view between owners is agreed upon by all owners to be the main reason to collaborate. Apart from that, collaboration does not occur. Targets emphasise that more collaboration could help their work, as it becomes easier for them to know what to focus on, and see a partial discrepancy as the alignment of beliefs between owners could be increased further.

> *"We report to our owners in different periods. Therefore, it would be valuable only to populate one report once. There are also different requests and focus areas from various owners from a reporting perspective." (Head of Sustainability, Target 1)*

5.3 Cultivation: Ongoing Engagement

Within ongoing engagement, most significance is put on proactive engagement. The first section accounts for participants' emphasis on the importance of building strong arguments over longer periods for managers to dedicate time, and what owners do in the instances where managers do not buy their arguments. Sometimes reactive engagements also occur, where owners take on a partially different role. Lastly, one section within the cultivation phase regards public activism, which is not seen as an option either from owners or targets to facilitate better engagement.

5.3.1 Resonating Focus and How Owners Build Their Arguments

Owners build arguments with the primary objective that managers will perceive it as fundamentally good for their business. Therefore, the owner must raise issues relevant to the targets to get management to resonate the focus on that particular aspect.

> *"We tailor-make our sustainability priorities based on what is relevant for each company." (Head of Sustainability, Investment Co 1)*

How owners bring forward the aspects they believe is most important to the target companies depends on how well established the suggestion is within the target firm. In the cases where the area has been discussed previously, and there is a consensus picture that that specific aspect is essential, the owners mainly focus on continuity to show the importance of the issue. In those instances where there is a less established view on what is most important, owners try to build organisational support by focusing on why it is vital for the company. This work entails finding specific reasons why the suggestion is beneficial, for example, in the form of reducing costs, making it easier to hire personnel, or improving branding effects. At the same time, owners say it is essential to keep in mind that forcing targets without having incentives will likely not be effective.

> *"What kind of argument they show and why it is relevant for us is crucial. It is not about opinions but what is best for the company. Moreover, hopefully, then, it becomes apparent when they present all the evidence if we should do it or not." (Head of Sustainability, Target 4)*

Owners believe it is not always their role to highlight the important focus areas. As an example, The Head of Alternative Investments at Pension Co believes that the managers and the founders of the targets often know what is best for the company, so they should decide what to focus on. The CEO of Investment Co 2 agrees.

> *"I think it is quite simple; they [managers] must themselves be convinced that it is a good thing for the company and contributes to the companies becoming stronger and more valuable. If we do not succeed at convincing them, then they should not, and will not, think it is an important question." (CEO, Investment Co 2)*

One crucial thing to increase the management of target firms willing to listen is that targets feel that owners have made a substantial effort to understand their needs and make suggestions following that. This, participants explain, makes them more willing to listen to the owner. Some owners also try to help the target in their sustainability work by taking on a more supportive role. The reason is partially to be perceived as a competent owner, as well as to reduce the managers' anxiety that it can be difficult to implement. Taking on a supportive role is only done by those owners who believe they have enough competence and expertise. For example, all representatives at Investment Co 1 tell the target companies immediately upon an investment that they are willing to help the firms in their operational work tied to sustainability. This is also something that they say companies have used. An example is brought up by the Sustainability Director Investment Co 1, where one of their portfolio companies reached out to them regarding social sustainability and tied it to working conditions. This was done both to feel the owners' support and get help in an area with less expertise. The Legal and Sustainability Director at Investment Co 1 clarifies that they are not experts in every field but can help provide external support by hiring consultants to help the companies. This is something Venture Capital Co 1 agrees on.

> *"I would say we see that as an opportunity because we see ourselves as one of the leaders in this space, and this is one of the USPs we bring to the table that we say why should they pitch as an investor. We guide them on their journey. I think the trick is to work as a partner rather than telling them how to do certain things. We take a very collaborative approach with our companies to identify what is right." (Head of Sustainability, Investment Co 1)*

Within unlisted assets, owners are not as afraid to become operational as there are limited insider information rules. For the same reason, there are also better possibilities for the management and the owners to communicate actions undertaken within sustainability in unlisted companies. Some owners however claim that even though there are more possibilities to work in the dark in unlisted assets, this does not affect their work.

> *"If you are doing things that you do not want to be responsible for or do not want to communicate to the audience, there are more significant opportunities to do so in an unlisted environment because you do not have the same requirements for providing information. Nevertheless, I do not think it is a good idea because it is always good to do things that can withstand daylight as much as possible." (CEO, Investment Co 2)*

Many targets mention the difficulty of knowing what to benchmark their work against and whether they can consider themselves to perform well within sustainability. Many owners and targets believe this makes sustainability more challenging to push for, as evaluation in firms tends to base performance on metrics.

> *"It is confusing. There are not many standardised definitions today, so there is a huge difficulty in communicating. Another difficulty is that all companies may calculate a little differently, and you may choose to highlight different things." (Head of Sustainability, Target 2)*

Although quantifying the work is inherently difficult, owners state that they would not try to influence policymakers on this matter as they see limited chance for success. That is why owners try to be transparent in their priorities and circle in where they are knowledgeable enough to know what good sustainability work is. As companies report different metrics and highlight different things, it becomes difficult to compare and, therefore, to communicate a target firm's sustainability work both internally and externally. As for owners, the owners need to showcase that they have been part of the sustainability journey to be viewed as good owners. A way to always keep the targets continuing and not only see it as a goal that needs to be checked is to raise the bar.

> *"What we do is that we always push for more." (Head of Sustainability, Venture Capital Co 2)*

Targets mention that owners could strengthen their arguments by helping them to keep track of new regulations. This work is difficult to conduct for targets because of time constraints as they often experience rapidly changing external environments. Owners on the other hand, they argue, have risk assessment as one of their core competencies. For example, the Head of Sustainability at both Target 2, and 4 declares that if regulation was to come and the owner makes them aware of it, that would make them prioritise the issue. Both owners and targets believe regulation will increase in importance as more regulation also targets unlisted firms. One limitation seen in owners' work is how owners build their argument when resource scarcity or the owner must prioritise between many different areas. This is also where targets believe that owners could take a more prominent role in clarifying how they should prioritise. All the targets share this view.

> *"It would be fantastic, I think. It would be fantastic if owners played a role in setting the frames for how we should prioritise. Because then these goal conflicts would become much clearer." (Head of Sustainability, Target 3)*

There is a discrepancy between owners and targets on this matter as owners believe they provide targets with clear priorities, although owners also adhere to the inherent difficulty in prioritising between the different areas of sustainability. The Head of Sustainability at Venture Capital Co 2 further emphasises the importance of having a clear framework to work from, as focus otherwise is resonated on what sustainability is, instead of how the company can maximise its efforts. All participants agree that more standardisation and harmonisation in definitions is needed and will be stipulated over the coming years.

> *"Sustainability is very, very vast, and it can mean many things to many people and different things to many sectors. For this reason, we have tried to put a structure to this madness." (Head of Sustainability, Venture Capital Co 2)*

All participants clarified that owners do not emphasise their ownership size in their engagement. The owners ascribe this to their belief that owner size does not serve as an argument that has any impact. Consequently, collaborations would not increase the owners' likelihood of successful engagements as the owners view collaborations primarily as an opportunity to increase the pooled number of votes, and are therefore used to a limited extent. Targets in unison also claim that they do not listen more to owners that have a higher ownership stake. Instead, they want the owners who are perceived to be most knowledgeable in a field to be the ones that drive the work from the owners' side. The only occasion where participants claim that size can have implications is that participants expect the largest shareholder to be an active owner and act as a thought leader if no one else does.

> *"It is as simple as owning a large part of a company brings certain obligations." (CEO, Investment Co 2)*

5.3.2 When a Target Do not Do What the Owners Want

Most owners adhere to the importance of pre-investment to ensure that their view on sustainability is in line with management to avoid situations where the target does not want to listen. As an example, the Head of Sustainability at Venture Capital Co 2 highlights the importance of being clear from the start about expectations and setting the goals together with the management. If they buy into the goals and mission, these situations can be avoided.

"The companies are not able to say when we start monitoring them that they do not want to do this because the question of what metric to report on, how to report and what they report on has already taken place before that." (Head of Sustainability, Venture Capital Co 2)

However, in the instances where there are different views, neither of the owners would threaten to sell the company, nor enforce legal proceedings. This is true both for private and public engagements, as it is viewed as counter efficient and might hurt the relationship and constructive dialogue. Instead, when targets do not want to listen, the owners believe it is them who have failed to persuade the management.

5.3.3 Reactive Activism Provides Opportunity for Redirection

Although one of the main reasons owners emphasise proactive work is to avoid crises, unforeseen events sometimes occur that require both owners and targets to change the prioritisation of the engagement. These are the instances where reactive activism is initiated. In these instances, targets sometimes take help from owners who have long experience of handling the media and setting up proper plans to get back on track. This is viewed as a strength of good owners who have accumulated knowledge about handling these kinds of situations that might arise. Reactive activism allows the owner to show the target their willingness to assist the target and their competence. When dealing with a crisis, both the owners and the targets must be aligned on what to do and how to communicate it to the other owners.

"You need help in crisis management, as you need to have a united front. You need support and advice on how the company should communicate externally, talk about both the problem and the action plan and how to respond to the media, so that type of support is definitely needed from owners in crises." (Head of Sustainability, Target 4)

There is a tendency for owners to become more involved in influencing the company and even help when these situations arise. This is unsustainable in the long run but in the short run many owners also believe that the reactive part could be a way to evaluate the target capacity to handle difficult situations. Whenever the reprioritisation is undertaken, there is also often something underlying explaining why it has not been working. As such, the crisis eventually enabled increased sustainability efforts.

"Usually, it is a good opportunity to test the company's capacity to handle such issues. Sometimes it turns out that you should do something new that is not currently undertaken within the organisation. These situations require a bit more work and follow-up from our side." (Head of Sustainability, Pension Co)

5.3.4 Public Activism is Seen as Counterproductive

Engaging in public activism is not seen as productive, either by owners or targets. In unlisted assets it is easier to contact management, so it is easier to engage in private activism. As it is easier to share information, more work also can occur outside of the formal steering functions. For example, the Head of Sustainability at Pension Co mentions that the annual meeting and the voting often are decided beforehand as most of the more prominent owners have direct contact with the board of the target firms. Therefore, there is no need to make shareholder resolutions. This, they mention, is often not the case with listed companies, where they must be a substantial owner to get access to that type of information.

> *"It is very transparent, and in 9 out of 10 cases the same people are in the discussions, to have a harmonised message to the CEO." (CEO, Investment Co 2)*

All participants agree that using media and making dialogues public is non-existent. As the focus is on private engagement, good relationships between all stakeholders are essential, and owners highlight usage of media as leading to reduced incentives for management to listen. Participants state that making an issue public would be viewed as going behind the other stakeholder's backs. Therefore, it is never worth it, even if the one owner views the private engagement to be suboptimal around an issue. Another reason for avoiding usage of public forums is that the owners sometimes are synonymous with the target in the media, and therefore risk their reputation. The media refers to the target as "Owner X's firm", even though they only own a minority.

> *"Quite often, I think that because we are Investment Co 2 and our owner is who he or she is, there is a media interest. So when some bad things are happening in Target 3, it is fun to ask the question to him because then it becomes big news. Then the media can write, "Billionare X's tech company is doing this and that." (CEO, Investment Co 2)*

6. Analysis

This chapter applies the analytical framework to interpret and understand how owners work to enhance salience in unlisted assets within a sustainability context. The sources tied to the power attribute will be analysed in 6.1. The second section regards the legitimacy attribute (6.2), and the third section focuses on the urgency factor (6.3). The fourth section focuses on the moderating factors (6.4). Lastly, the chapter ends with an overall conclusion on how owners work to enhance salience in unlisted businesses (6.5).

6.1 Power

6.1.1 Coercive Power

The use of coercive power in the form of formal shareholder rights is very rare. As an example, the usage of proposals through AGMs is not used. This stands in some contrast with previous scholars claiming it has a large role in listed assets (Goranova & Ryan, 2014). The importance of a good relationship between the management team and the owner firm is viewed as significant, and the use of such power could harm this relationship (Gifford, 2010). Owners also point to the fact that unlisted target firms often have fewer owners, and it is easier to coordinate outside of the formal yearly company events, reducing the need to use coercive power (Agle, Mitchell & Sonnenfeld, 1999). In addition, the owners therefore have the option to themselves interact more easily with management, and therefore do not need annual meetings. Moreover, in the type of targets investigated, the founder often acts as the CEO or has an influential stake. As several owners express, it is therefore very difficult to replace a CEO. That is also why the evaluation of a company pre-investment is so crucial for the future sustainability work, as the owner often to a large extent is stuck with parts of the board and the managers (Mitchell, Agle & Wood, 1997)

6.1.2 Utilitarian Power

Using the threat to sell a target firm is non-existent by owners, in contrast to some previous findings for listed assets where it is used more commonly (Admati & Pfleiderer, 2009). The reasons provided are similar to those argued for by Gifford (2010) and Hirschman (1970), namely that the incentive to listen is reduced if threats to exit are stated. As having an ongoing engagement where all parties are willing to listen is viewed as important, and the legitimacy as an owner may be reduced if a threat to sell is stated, owners do not want to take the risk of hurting their reputation by threatening to sell (Gifford, 2010; Mitchell, Agle & Wood, 1997).

6.1.3 Normative Power

Owners' proposed power to make a matter public or through a statement affecting a target's reputation is not used, as it would undermine the legitimacy of the owner. The media interest around these owners is sometimes large, but it is clearly stated both by owners and targets that using the media or similar sources would be ineffective and hurt the relationship. Similar to some previous empirical findings, both the owners and the targets claim that this would hurt the future engagement between the firms (Barton, 2011). As proactive engagement is the main way active ownership takes form, the potential downside of worsening a relationship is elevated in unlisted assets. It is always seen as more constructive to have a discussion about an important subject with the owners and through that achieve a better understanding of how to proceed (Mitchell, Agle & Wood, 1997; Logsdon & Van Buren 2009; Rehbein, Logsdon & Van Buren, 2013).

6.2 Legitimacy

6.2.1 Individual Legitimacy

Throughout all the interviews with targets, the credibility, expertise, experience and status of those engaging in the dialogue from the owners' side were generally perceived as high (Mitchell, Agle & Wood, 1997; Gifford, 2010). The targets expressed that it could be difficult to separate the individual that represents the owner with that of the owner firm. The targets express that the people are important, but use wordings more broadly surrounding that the owner firm overall is credible (Mitchell, Agle & Wood, 1997). Regardless of if it is the company itself or the person representing them, participants concur to the importance that the person who represents the owner, also reflects the values that the target firm associates with the owner firm (Wood, 1991). Owners try to match different people with the respective targets tied to sustainability, based on the skills and experience they had, but only to a limited extent. A reason for this might be that the sustainability team still is relatively limited within each company, and as such, there is no specialisation within the owner firms within sustainability. To mitigate this, some owners use external experts in the instances where there is a need (Gifford, 2010).

6.2.2 Organisational Legitimacy

All owners have a legitimate claim on the company (Wood, 1991). As such, larger owners of unlisted assets perceive themselves, and are perceived by managers, to be important for the development of the target firm. Secondly, to increase alignment between different stakeholders, emphasis is made by owners already in the investment phase on their values and views on sustainability. All targets mention that one of the primary reasons for choosing a particular owner is their values and work within sustainability. Targets also stress the importance of the ownership firms themselves showcasing that sustainability is an important priority area (Neville, Bell & Whitwell, 2011). Furthermore, alignment is enhanced through continuous discussions where owners often try to get the management to formulate the focus, and based on that together choose an optimal path based on the management's preferences and knowledge (Mitchell, Agle & Wood, 1997).

All the owner firms are seen as having a large degree of credibility by the targets. Targets emphasise that owners are knowledgeable enough to be active, which stands in some contrast to previous research (Hendry et al., 2006; Laughland & Bansal, 2010). Furthermore, as targets are involved in choosing their owners, the assessment of legitimacy often occurs already in that stage. A large part of owners' work to build legitimacy is therefore to make sure that they are viewed as a good owner in all their companies (Gifford, 2010). This is especially done in those firms where owners have a larger ownership stake, and not only the ones that make out the largest part of their value (Fich, Harford & Tran 2015). Lastly, to achieve consistency, owners limit the number of people in contact with the target firms to be more consistent. The only instance where consistency might be somewhat limited is when prioritising between sustainability and monetary returns. These two priorities however always coexist, and it does not materially affect the target's view on the owner as organisationally legitimate. Many owners first align internally and then speak to the target company. Consequently, the messaging and the focus areas are overall seen as consistent (Mitchell, Agle & Wood, 1997).

6.2.3 Pragmatic Legitimacy

Providing managers with strong arguments is highlighted by owners and targets as crucial for their willingness to act on it (Gifford, 2010). To enhance pragmatic legitimacy, owners adapt their arguments to the individual target company's business and prerequisites. They also formulate their arguments with emphasis on the benefits of working with sustainability and that it is essential to be competitive in today's business world. Reasons brought up are employment attraction and marketing where consumers actively choose brands that they perceive as sustainable (Dimson, Karakas & Li, 2015), and moral reasons (Proffitt & Spicer, 2006). Owners, however, struggle with giving clear priorities between different aspects of sustainability, especially when they are contradictory. Target firms think that owners could be more involved when deciding what to focus on, as owners today allocate partial focus on many issues. For targets this partly dilutes their view on owners as pragmatic, and instead want owners to take a stance. As such, this is an area where owners' work is perceived to have the opportunity for improvement within legitimacy (Suchman, 1995). Providing targets with new information as a way to build the business case, is modestly used by owners. It is however seen by targets as a good way to build a business case as they can point to a changing environment that requires the target to act now (Gifford, 2010).

6.2.4 Societal Legitimacy

All participants agree that society holds the view that companies have a large responsibility to act more sustainably (Cobb & Elder, 1972; Gifford, 2010). Much of the owners' formulation of arguments surround normative arguments grounded in the notion of the increasing importance of sustainability, for example in hiring and marketing. As owners are emphasising increased prioritisation of the sustainability work, they are seen in the eyes of targets to reflect this view. Furthermore, the participants follow the rules and norms and perceive them to be in line with sustainability. Moreover, it is evident that the participants believe that there will be more harmonisation and that more regulation will come, further increasing the importance of sustainability. As such, the owners are acting in accordance with a cause that has a high degree of societal legitimacy (Mitchell, Agle & Wood, 1997).

6.3 Urgency

6.3.1 Time-sensitivity

Owners dedicate limited focus on enhancing time-sensitivity. Both targets and owners express the importance of proactive engagement in unlisted assets, an engagement strategy where it is more difficult to create time-sensitivity (Mitchell, Agle & Wood, 1997). The effects of this is partly mitigated by owners focusing on a mutual understanding that sustainability needs to be focused on, with a longer term view to achieve the best possible results. Time-sensitivity is not viewed by the participants as equally important around sustainability related issues which require longer-term focus, similar to Gifford's (2010) findings. Another difficulty for owners is that the target's environments are changing when they grow, which makes time-specific goals difficult. Targets argue that owners could increase time-sensitivity by focusing more on the increased regulation they believe will come, although targets stressed that time-sensitivity is not something that determines their prioritisation on a daily business. Focusing on making an issue time-sensitive therefore seems secondary to owners and rather just a factor that could enhance other factors (Jones, Felps & Bigley, 2007). Instead, priority is made on those areas which are viewed as critical, which eventually are those being incorporated into the longer-term business plan (Gifford, 2010).

6.3.2 Criticality

Owners concentrate much of their engagement on enhancing criticality. They emphasise the importance of management buy-ins and that a suggestion should not be accepted until the managers perceive it as important. Owners try to create the buy-in by bringing forward their argument in a professional and business-oriented way with persistence over time. Continuous engagement around a topic and ensuring that sustainability is always on the agenda with a regular basis, guarantees persistence. Owners coming back to the importance of sustainability and specific focus areas over time build persistence in the eyes of the target (Gifford, 2010). Participants also believe that sustainability will become increasingly important going forward, hence the work will have a high probability of being used (Driscoll & Starik, 2004). Lastly, owners dedicate substantial resources to the engagement, as both sustainability directors and the person responsible for each engagement participate continuously with the engagement. Targets emphasise that owners showcasing the importance of sustainability, also in their own firm, enhance their view that owners perceive to be willing to dedicate resources also to the target (Gifford, 2010).

6.4 The Role of Moderating Factors

There is an expectation that the largest owner has a responsibility to act if no other owner does it. Apart from that, size is not emphasised by owners as no participant believes it increases targets' willingness to prioritise the owners' claim. Therefore, the role of size seems to be less material than in listed assets (Gifford, 2010; Hellman, 2005; David, Bloom & Hillman, 2007; Hendry et al., 2006). Another difference between listed and unlisted assets is that collaboration between owners is not used to a large extent. Owners do not believe that cooperation enhances target's attention, and in general collaborations are used only to a limited degree, in contrast to previous studies (Proffitt & Spicer, 2006; Dimson, Karakas & Li, 2015; Gifford, 2010). The owners point to eased information sharing leading to the secondary importance of annual meetings and other formal governance structures where cooperation occurs in listed assets. The role of management views is seen as crucial and has large implications for owners' work (Majoch & Hoepner, 2017). This forms the basis of a good engagement relationship as the main focus is on proactive engagement where the dialogue is important. Moreover, as the founder is such an influential role in many of the companies discussed, it is not desirable to try to change management, which increases the importance of aligned views (Majoch & Hoepner, 2017; Mitchell, Agle & Wood, 1997). The views of managers also have an impact when targets in turn evaluate potential owners prior to an investment.

6.5 Conclusion

The findings suggest that owner's work in a partially different way compared to that of listed businesses to enhance salience in unlisted businesses within a sustainability context. Similarities are primarily found in the type of arguments used by owners to increase the likelihood of management's willingness to listen (Mitchell, Agle & Wood, 1997; Dimson, Karakas & Li, 2015). Furthermore, the reduced legitimacy that comes from using coercive power is confirmed. The findings suggest that the same could be extended to normative and utilitarian power as owners fear that using power also impacts the view both from managers and the larger community (Gifford, 2010; Hirschman, 1970). Consequently, one seemingly difference is that the power attribute is less critical in unlisted assets (Parent & Deephouse, 2007), which also could be explained by the importance of close collaboration and, as such, stakeholders putting more weight on dialogue rather than the power balance (Eisenhardt, 1989). Owners' engagement in unlisted assets relies more on private engagements, and public engagements are viewed as undermining legitimacy. This increases the importance of aligning the owner's view with the management's (Mitchell, Agle & Wood, 1997). Target firms evaluate owners too, as targets want to be associated with good owners, and owners try to position themselves accordingly into consideration upon investment, and when they build their arguments (Neville, Bell & Whitwell, 2011; Eesley & Lenox, 2006). Therefore, one finding similar to existing research on listed assets is that legitimacy seems to be the main focus area for owners' work to enhance salience (Gifford, 2010). Separating the role that an owner takes in a proactive engagement compared to reactive engagements is important, as the situation has implications for how owners work, mainly around urgency. As proactive engagement is more used, time-sensitivity is decreased in prioritisation in unlisted assets, as these issues inherently are less pressing in time. This is compensated through criticality, mainly through persistence and allocation of resources (Agle, Mitchell & Sonnenfeld, 1999). Size is not viewed as important, and collaborations are not widely used. To conclude, with the author's purpose and delimitation in mind, the authors managed to achieve a strong conceptual understanding in accordance with the purpose of the thesis (Bryman & Bell, 2015).

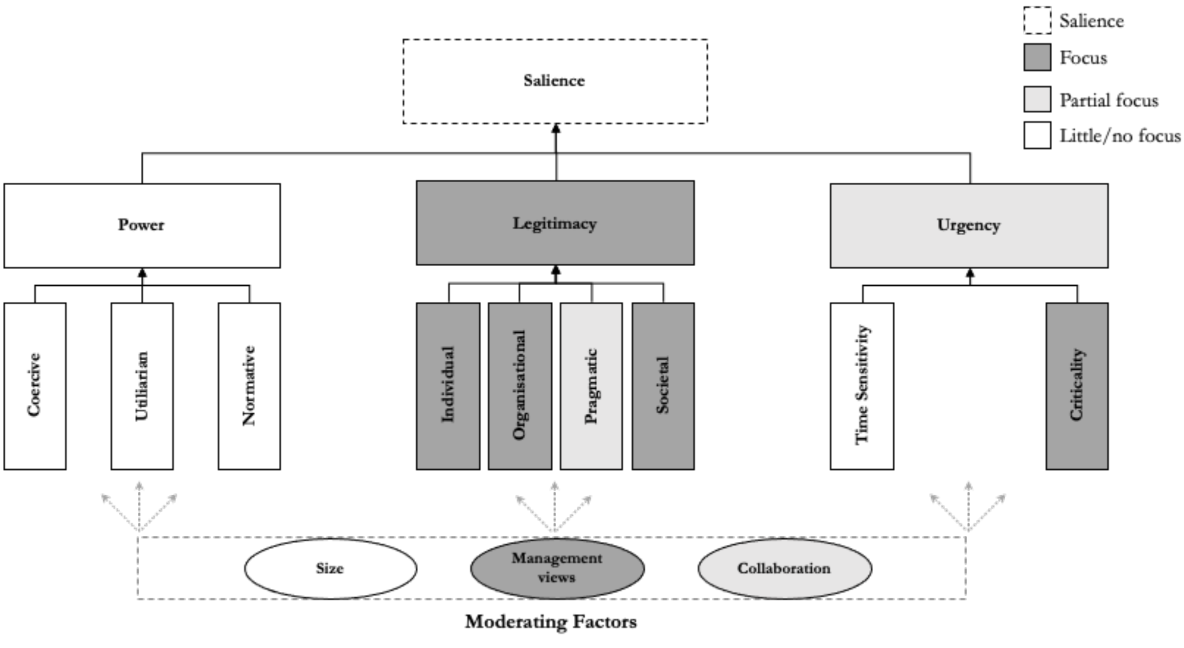

Figure 3 - Illustration of how owners of unlisted companies work to enhance salience

7. Discussion

This final chapter discusses the study's theoretical contributions (7.1) and its practical implications (7.2). Subsequently, the limitations of the study are presented, (7.3) and suggestions for future research (7.4).

7.1 Theoretical Contribution

This thesis contributes to the research around salience in a sustainability context tied to unlisted assets and extends the application of Mitchell, Agle & Wood (1997) framework of salience. As all owners interviewed have experience in both listed and unlisted assets, they were able to compare their work between unlisted and listed work around sustainability. The empirical findings suggest that several prerequisites in unlisted assets differ from listed assets, which makes owners formulate their work partially in a different way to enhance salience (Mitchell, Agle & Wood, 1997; Gifford, 2010). This study indicates that owners focus on their reputation to enhance their salience and therefore the role of legitimacy is increased in the eyes of owners, partially at the expense of the importance of power (Hirschman, 1970; Gifford, 2010). Gifford's (2010) findings indicate that management values are a moderating factor, which the findings in this report support and extend (Majoch & Hoepner, 2017). Furthermore, by clarifying the difference in the work conducted by owners depending on the type of engagement between proactive and reactive engagement, this thesis makes a valuable theoretical finding. As such, the findings suggest an extension of previous research as it implies not only that the issue itself is different, but that it acts as a moderating factor to the work conducted to enhance salience (Dimson, Karakaş & Li, 2018. Focusing on proactive processes that the owners follow over a long period of time builds urgency through persistence and legitimacy through pragmatism in the eyes of the target (Gifford, 2010). It also has the benefit of creating a sense of alignment between owners and targets, which is a prerequisite to influencing them (Mitchell, Agle & Wood, 1997; Dimson, Karakas & Li, 2015; Gifford, 2010). As such, keeping reactive and proactive dialogues apart is proposed when researchers investigate owners and their work to enhance salience in unlisted assets.

7.2 Practical Implications

Although this thesis mainly has an explorative purpose for how owners work, the findings have practical implications for how owners could choose to formulate theirs, by providing a study of how the work is conducted and by incorporating the target's view on the work. Owners today primarily work with legitimacy, and targets generally perceive the owners as legitimate. At the same time, targets believe it is difficult to know how to prioritise different aspects within sustainability and owners partially fail to provide them with guidance. Owners risk focusing too much on legitimacy, and too little on power and urgency, leading to what Mitchell, Agle & Wood (1997) refer to as discretionary stakeholders. Managers know that if they fail to meet their financial targets, they will likely get repercussions, which they seemingly won't to the same degree around sustainability. Two reasons for owners still not clearly defining the incentives for sustainability might be that many areas within sustainability are difficult to define and quantify. Hence, even though owners can achieve salience through legitimacy, they should still consider working with power and urgency. As it is the target firm and the managers drive and implement the sustainability work, it is important that they do not blindly follow an owner's suggestions, only because owner's have high legitimacy (Freeman, 1984). That is why owners might need to further work with power and urgency to increase their salience.

7.3 Limitations

This thesis is subject to certain limitations. To begin, the research project gathered data from participants through interviews at one specific point in time, and therefore lacked the opportunity to follow the development of a relationship over an extended period. There might be a discrepancy between what participants claim they did and their actual behaviour, but this limitation was hard to mitigate considering the timeframe of this research project. By interviewing several of the participants in the work of each relationship, this was partially mitigated. Secondly, even though rich data through remote interviews was gathered (Smith & Schneider, 2015), conducting the interviews on-site could have provided additional nuances, for example, through the capture of body language (Bryman & Bell, 2015). A third limitation is that three of the targets interviewed had a founder with a large ownership stake, which might have implications for the generalisation of this study. Leaders tend to imprint firms with their values (Wally & Baum, 1994), and the founder's share of ownership might lead managers to act less like agents and more like principals, affecting their willingness to prioritise the owners' claims (Eisenhardt, 1989). Hence a manager's ownership stake might have a moderating effect on how owners work to enhance salience.

7.4 Future Research

A suggestion for future research would be to conduct a research project that would capture the engagement with all major stakeholders involved, over an extended period of time. Although this study included at least two owners of every target firm, an extension of the number of owners and different points in time could enable researchers to get a more holistic view of the owners' work. Secondly, conducting a study where researchers conduct interviews coupled with a participatory observation study could provide additional insights. The aim of the research project would be to capture the nuances of unconscious aspects of engagement with the owner and the target firm. This could provide further insights into the eventual discrepancies between how participants claim they work and how they de facto work. Moreover, future studies could investigate the extent to which managers' ownership stake has implications on how owners work to enhance salience. It can not be ruled out that the founder's ownership stake might be a moderating factor affecting how owners interact and choose focus areas, which could have implications on an owner's salience. Therefore, researching to which extent the ownership position held by a manager impacts owners' work could provide further insights into owners and their active ownership in a sustainability context.

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9. Appendix

Appendix 1: Overview of Interview participants

Company Acronym	Person	Date	Place	Length
Pension Co	Head of Sustainability	2022-03-01	Online	50 min
Pension Co	Head of Alternative Investments	2022-03-01	Online	50 min
Investment Co 1	Sustainability Director	2022-03-02	Online	60 min
Investment Co 1	Head of Corporate Communications	2022-03-02	Online	60 min
Investment Co 1	Legal and Sustainability Director	2022-03-02	Online	60 min
Investment Co 2	CFO	2022-03-08	Online	45 min
Investment Co 2	CEO	2022-03-14	Online	60 min
Investment Co 2	Investment Director	2022-03-15	Online	50 min
Venture Capital Co 1	Head of Sustainability	2023-03-18	Online	60 min
Venture Capital Co 2	Head of Sustainability	2023-03-22	Online	60 min
Target 1	Head of Sustainability	2022-03-29	Online	60 min
Target 2	Head of Sustainability	2022-03-31	Online	60 min
Target 3	Head of Sustainability	2022-04-05	Online	60 min
Target 4	Head of Sustainability	2022-04-07	Online	60 min
Venture Capital Co 3	General Partner	2022-04-21	Physical	45 min
Target 3	CEO	2022-04-26	Online	45 min

Appendix 2: Owner Interview Protocol Example

- What are your respective roles in the company's sustainability work?

- What is your opinion of the role that active ownership has in your sustainability work?
- What are the largest differences between working with active ownership in listed and unlisted assets?
- Where do you think you as an owner can have the largest impact on your target company's sustainability work?
- What are your major learnings when it comes to engagement and influencing target companies?
- What is the most challenging part of working with the target companies around sustainability?
- How do you prioritise and choose what to focus on within ESG?
- Do you think there is a difference between working with sustainability in tech companies like those you own compared to companies in other industries?
- Could you describe how your engagement with the target firms have looked like? What have they been focusing on?
- How do you collaborate with the other owners?
- How do you follow up on objectives and goals?
- How do you present ideas and build business cases for ideas around sustainability?
- Do you work in any way to increase the commitment from management around sustainability?
- Is there a difference in working with engagements that are proactive and reactive?
- Do you think people listen to you more than other investors?
- To what extent do you think your ownership size/position affects the discussions?
- Do you work with engagement in the same way with all target companies?
- Do you incorporate any other stakeholders outside of owners and target firms in this work?
- Does it happen that the target companies contact you? If yes, when and how?
- Do you ever work more operationally in these kinds of firms?
- Would you ever make an issue public, for instance, using AGM's or use the media?
- Do you ever bring in external people who you work with?

Appendix 3: Target Interview Protocol Example

- Can you describe what your role is in sustainability?
- Can you explain the role that you believe that active ownership work has in your sustainability work?
- Where do you think an owner can contribute the most to your sustainability work?
- How do the owners follow up on the reporting you need? Do you find reporting useful?
- Do you see any advantage in the companies cooperating and coordinating the work between the owners?
- What are the biggest differences with the activism between your different owners?
- Do you listen more to some owners than others? Why/why not?
- When you think of an owner, what importance would you ascribe to the individual compared to the organisation overall when you think of their expertise?
- What is the most difficult part of working with engagements with owners in sustainability is your image?
- How do you take the owner's sustainability work into account when choosing investors?
- Describe what your interaction with your larger owners usually looks like?
- Does it happen that you contact the owner?
- Is there any specific sustainability-related measure that you have implemented as a result of your engagements with the owner firms interviewed?
- Are there any incentives tied to achieving sustainable goals?
- What would you say that the owner's do well and could do better?
- What would happen if the owners had something you want to focus on but you do not think is important?
- What do you consider to be the best arguments owners can use to influence you?
- What is the role of the owner in a situation when a crisis would emerge?
- Do you think that engagements would have changed about sustainability if there had been a sustainability crisis?
- How good do you think the owners' expertise in sustainability is? What could increase their expertise?
- Does an institution's long-term perspective affect how willing you are to act on the proposals they present in an engagement?
- Are there any other factors that affect how willing you are to listen?
- How do you work with time-bound goals, and what is the owner's role?
- Your company is growing much faster than the overall economy. Do you then set goals relatively or absolutely? And does it make it difficult to set long-term goals?
- Is your action affected by when an owner makes a claim alone or if they do so when they represent a larger association/alliance of investors?