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Beyond Returns: Making Sense of ESG Integration in Private Equity

A Qualitative Case Study on How Private Equity Firms Weigh Environmental, Social, and Governance Factors in Investment Decisions

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Abstract

This thesis investigates how environmental, social, and governance (ESG) considerations are integrated into the investment decision-making process within a private equity (PE) context, focusing on a small to mid-sized Swedish PE firm. The study highlights the evolution of ESG from a compliance-driven obligation to a strategic priority, driven by both external pressures and intrinsic organizational values. Through a qualitative case study, it explores the systematic incorporation of ESG across the investment lifecycle, including internally developed tools, structured due diligence processes, and post-investment considerations. Key findings reveal the role of internal champions, cultural alignment, and a smaller firm structure in fostering agility and collaboration, enabling the firm to exceed regulatory compliance and embed ESG as a driver of value creation. However, challenges persist, including data standardization, stakeholder alignment, and variability in internal expertise. By applying sensemaking and sensegiving theoretical frameworks, this research provides insights into ESG integration, contributing to the academic literature and offering practical lessons for the PE industry at large.

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Keywords: ESG integration, Private equity, Sustainability, Investment decision-making, Sensemaking

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1. Introduction

In recent years, environmental, social, and governance (ESG) considerations have moved from the periphery to the forefront of private equity (PE) investment strategies. The perspective of limited partners (LPs) has become increasingly evident: sustainability is taking center stage in PE strategies. According to Bain (2021), 88% of LPs now use ESG performance indicators in making investment decisions, reflecting the growing recognition of ESG as a critical factor in driving sustainable financial returns and managing risk (Bain, 2021). Furthermore, a 2024 survey conducted by the Boston Consulting Group (BCG) reveals that 85% of LPs expect to increase their prioritization of sustainability-related topics over the next three years. Also, nearly 70% agree that portfolio companies that thoughtfully consider and manage sustainability warrant a valuation premium compared to peers that do not (BCG, 2024). This underscores the shifting expectations of investors, reinforcing the potential role of sustainability as both a risk mitigator and a driver of value creation in the PE sector. Major PE firms are leading this charge. For instance, with over $246 billion in assets under management, Sweden's EQT has emerged as a global leader, making renewable energy adoption across its portfolio a core strategic priority. Such commitments underscore the growing consensus among PE investors that, for many portfolio companies, sustainability has become a proven lever for value creation (BCG, 2024).

The increasing focus on ESG is not merely a compliance exercise; it represents a competitive advantage in the highly competitive PE landscape. General partners (GPs) are now competing not only for capital—where LPs demand clarity on purpose and outcomes—but also for talent and deals, as more stakeholders prioritize alignment of values (EY, 2021). As Bain reports, leading firms view ESG as a differentiating capability that provides an edge in attracting investors, portfolio companies, and top-tier talent (Bain, 2021). Beyond positioning and differentiation, ESG is now recognized as a critical lever for value creation. In the Swedish and global markets, sustainability has evolved into a core business strategy, enhancing scalability, competitiveness, and long-term growth potential (PwC, 2023). Since 2012, BlackRock, the world's largest asset manager, has prioritized integrating ESG principles into its PE investments and broader strategies on behalf of clients who view sustainability as vital to long-term success. This commitment has been underscored by its annual "Letter to CEOs", which advocates for sustainable practices and long-term value creation (Fink, 2022), indicating a call for change within the industry.

Despite this momentum and the growing body of literature on ESG, there is still limited clarity on how PE firms practically integrate ESG factors into their day-to-day investment decision-making processes. This thesis addresses this gap by examining how ESG considerations are embedded within the investment process of a small to mid-sized Swedish PE firm, Firm A in Appendix 8.1 and denoted "the firm", which has made significant strides in incorporating ESG factors into their investment decision-making.

This thesis seeks to answer the question: *"How are ESG factors integrated into the investment decision-making processes of private equity firms?"*. By focusing on the firm's concrete actions and decisions throughout the entire investment lifecycle, this thesis aims to illuminate the "how" and "when" of ESG integration, moving beyond theory to explore the practical realities of incorporating ESG into investment decisions.

To guide the analysis of the findings, this thesis employs the theoretical framework of sensemaking and sensegiving, as developed by Weick (1995) and Gioia and Chittipeddi (1991), respectively. Sensemaking refers to the process of creating meaning in ambiguous situations, while sensegiving involves the efforts of individuals and organizations to influence how others understand and interpret those situations (Weick, 1995; Gioia & Chittipeddi 1991). This framework is particularly relevant for understanding how PE firms navigate the uncertainties inherent in ESG integration. By applying this lens, the thesis examines how the firm makes sense of ESG considerations and attempts to influence the understanding and actions of its stakeholders, including investors, employees, and portfolio company management.

The research builds upon previous studies on ESG in the PE and accounting literature, such as the finding by Botsari and Lang (2020) (as cited in Lange & Banadaki, 2023) that 70% of venture capital (VC) firms incorporate ESG criteria, but primarily during the due diligence (DD) phase and often through negative screening rather than as a value creation opportunity. By providing an in-depth case study perspective, this research sheds light on the dynamics of ESG integration, as well as the complexities of how PE firms balance risk mitigation and value creation, as suggested by Zaccone and Pedrini (2020). The findings of Zaccone and Pedrini reveal that while ESG integration is gaining traction, most firms approach it conservatively, relying mainly on checklists and primarily focusing on risk management rather than actively pursuing value creation. They also highlight barriers such as limited data availability, difficulties in measuring ESG comprehensively, and a lack of internal expertise, which hinder deeper integration.

By focusing on the practical application of ESG policies, this thesis offers valuable insights for both practitioners and academics seeking to advance the understanding and implementation of ESG in the PE industry, aligning with Lange and Banadaki's (2023) call for further research on the practical implementation of ESG in VC. This thesis, exploring how a specific PE firm integrates ESG factors into their investment decisions, adds to this growing body of literature by providing a detailed qualitative analysis of 1) the specific mechanisms and practices used by the firm throughout the investment lifecycle to embed ESG considerations into its decision-making, and 2) the challenges the firm encounters in doing so.

This thesis begins with a review of the relevant literature on PE and ESG in Section 2.1, examining key concepts, trends, and debates in the field. Section 2.2 explains the theoretical framework, drawing on sensemaking and sensegiving to analyze the firm's approach to ESG integration. Section 3 outlines the methodology, detailing the qualitative case study approach, including the data collection methods and analytical process. The key findings are presented in Section 4, which explores how the firm incorporates ESG considerations across the investment lifecycle leading up to the investment decision, including initial screening, DD, and related decision-making processes. The discussion in Section 5 synthesizes the main insights by applying the theoretical lens of sensemaking, and outlining the academic contribution, while Section 6 concludes by summarizing the study's contributions and reflecting on its broader significance.

2. Literature and Theory

2.1 Private Equity and ESG

This section critically examines the existing body of knowledge surrounding private equity (PE) and the integration of environmental, social, and governance (ESG) factors into investment practices. It begins by outlining the historical development and core mechanisms of PE emphasizing the traditional approaches to value creation. The subsequent discussion explores the evolution of ESG as a critical consideration within the financial sector. Finally, it concludes by outlining the specific research gap addressed by this thesis, laying the groundwork for a closer examination of how ESG integration is practically implemented in PE decision-making.

2.1.1 Private Equity

Private equity is a broad investment category that involves long-term equity investments in companies that are not publicly traded on an exchange (Korteweg, 2023). One major form of PE is the leveraged buyout (LBO), in which PE funds acquire a majority stake in a company using substantial debt financing (Korteweg, 2023). As highlighted by Stowell (2010), a key characteristic of PE transactions is that a company or business unit is bought by a PE fund that has secured debt and equity financing from investors such as pension funds, insurance companies, high-net-worth individuals, sovereign wealth funds, hedge funds, or banks. As Stowell (2010) explains, if the target company is publicly traded, the buyout takes the company private with the expectation that this newly private company will be resold in the future, typically 3 to 7 years later, through an initial public offering (IPO) or a private sale to another company or PE firm. The PE firm's target internal rate of return (IRR) during the holding period has historically been over 20%, but the actual IRR depends on the amount of leverage used, the target company's ability to pay down the debt with cash flow, dividend payouts, and the exit strategy (Stowell, 2010).

PE funds are typically structured as closed-end, limited partnerships with a 10-year lifespan. The LPs are the investors who provide capital for the fund, typically pension funds and other institutions. The GPs are the PE firms that manage the fund, raise capital from LPs, and make investment decisions (Sorensen & Yasuda, 2023). GPs typically receive a management fee (usually around 2% of committed capital per year) and a percentage of the fund's profits, called carried interest, generally around 20% (Korteweg, 2023).

This study focuses exclusively on the traditional PE buyout model, which involves acquiring majority stakes in mature companies, often taking them private. While PE funds employ various strategies—such as venture capital (early-stage investments), growth capital, distressed investing, and impact investing (combining financial returns with social or environmental benefits)—this analysis is limited to buyouts. This focus aligns with our objective to examine value creation in traditional PE, achieved through three mechanisms: financial engineering (leveraging and restructuring to optimize capital structure and returns), governance engineering (implementing governance practices and aligning management incentives with fund goals), and operational engineering (enhancing operational efficiency and profitability). Recent literature points to a notable shift within the PE landscape, particularly in buyouts, where operational

engineering is increasingly recognized as a crucial driver of value creation alongside financial engineering (Sorensen & Yasuda, 2023).

Current literature sheds light on how PE firms generate returns through a mix of financial engineering and operational improvements, with increasing emphasis on the latter (Jenkinson et al., 2023; Stowell, 2010). PE firms often target companies with opportunities for operational enhancement, implementing measures to boost profitability and efficiency (Kaplan & Strömberg, 2009). Operational engineering focuses on cost reductions, productivity initiatives, and strategic realignments to enhance company performance (Kaplan & Strömberg, 2009; Stowell, 2010). Effective management and governance also play a central role. PE firms may replace management teams (Cendrowski & Wadecki, 2012), restructure boards (Jenkinson et al., 2023), and introduce performance-based compensation to align managerial incentives with investor objectives (Kaplan & Strömberg, 2009). Additionally, factors such as fund size (Ivashina, 2023) and market timing (Kaplan & Strömberg, 2009) influence investment decisions, while exit strategies such as IPOs inform investment planning from the outset (Stowell, 2010). While forms of PE have existed for centuries, venture capital (VC), a subset of PE, saw rapid growth in the 1990s fueled by the rise of internet technology companies, leading to inflated valuations and a speculative bubble that burst in the early 2000s, causing a wave of bankruptcies (Cendrowski & Wadecki, 2012). LPs became more selective, favoring firms with proven track records and operational expertise (Cendrowski & Wadecki, 2012).

Recent trends in the post-crisis landscape include the shifting focus of modern buyout funds from financial engineering to a hands-on approach emphasizing operational improvements and strategic partnerships (Jenkinson et al., 2023). Following the 2008 financial crisis, PE firms turned to private debt funds as traditional banks reduced lending. These funds offer diverse debt products—such as senior loans, mezzanine debt, and unitranche financing—providing PE firms with greater flexibility and access to capital during credit shortages (Jenkinson et al., 2023). Recent trends show extended investment holding periods beyond the traditional five years, driven by the need for additional time to realize the potential of investments requiring significant operational improvements or long-term growth strategies (Ivashina, 2023).

2.1.2 ESG & Private Equity

ESG stands for “environmental”, “social”, and “governance” (Zaccone & Pedrini, 2020). While there is a lack of consensus on a unified definition of ESG (Lange & Banadaki, 2023), it is said to encompass a range of issues related to a company’s impact on the environment, its

relationships with stakeholders, and its internal governance practices (Zaccone & Pedrini, 2020). The concept has evolved from earlier notions of corporate social responsibility (CSR), which focused on a company's obligations to society beyond its financial performance (Tsang et al., 2022). The "E", or environmental aspect, involves a company's dedication to protecting natural resources and the environment. Common initiatives include reducing harm to biodiversity and ecology, ensuring a responsible environmental footprint, and reducing carbon emissions and waste (Zaccone & Pedrini, 2020).

The "S", or social aspect, addresses a company's commitments to social issues. Here, activities may include protecting human rights, fighting child labor, engaging with stakeholders, protecting diversity, and promoting equal opportunities (Zaccone & Pedrini, 2020). Finally, the "G", or governance aspect, focuses on a company's governance practices to ensure the rights and responsibilities of stakeholders are upheld. This includes topics such as board composition and committee structure, bribery and corruption prevention, as well as whistleblowing mechanisms (Zaccone & Pedrini, 2020).

There is a growing recognition of the importance of ESG issues, driven by heightened awareness among consumers, employees, and investors. Followingly, this awareness translates into pressure on companies to adopt more sustainable practices, with investors increasingly prioritizing ESG factors in their investment decisions (Zaccone & Pedrini, 2020). Lange and Banadaki (2023) highlight that LPs often demand the integration of ESG factors in the investment process, though they may still prioritize financial returns, creating tensions in how ESG is perceived by investors. Academic literature has contributed to this shift by providing evidence that companies with strong ESG performance may exhibit better financial performance in the long run (Tsang et al., 2022).

Further, governments and regulatory bodies are increasingly enacting legislation and guidelines to promote ESG integration. For instance, the EU Sustainable Finance Disclosure Regulation (SFDR) is aimed at enhancing transparency in sustainable investment products (Lange & Banadaki, 2023). The EU taxonomy for sustainable activities establishes performance thresholds for investments to be classified as "sustainable," aiming to provide a clear framework for investors and prevent greenwashing. Moreover, current regulatory efforts emphasize standardized reporting and disclosure of ESG-related information, examples being organizations like the Global Reporting Initiative (GRI), the Sustainability Accounting

Standards Board (SASB), and the International Integrated Reporting Council (IIRC) (Young-Ferris & Roberts, 2021).

While PE firms have historically focused on maximizing financial returns through leveraged buyouts and aggressive financial strategies, there is a growing trend towards incorporating ESG criteria into their investment decisions. This shift is driven by a number of factors, including rising investor pressure. LPs are increasingly demanding ESG considerations in investment decisions (Millar et al., 2024), partly driven by their fiduciary duty to consider long-term value creation, which includes managing environmental and social risks. They are also responding to their own stakeholders who are increasingly sensitive to ESG issues (Lange & Banadaki, 2023). Another key driver is the regulatory landscape—while specific regulations targeting PE firms' ESG practices are still emerging, the broader regulatory momentum, particularly in Europe, influences PE firms to integrate ESG (Zaccone & Pedrini, 2020; Lange & Banadaki, 2023). In addition, Crifo and Forget (2012) indicate that PE firms are increasingly aware of the reputational risks associated with investments that negatively impact the environment or society. Finally, other drivers include a growing recognition that ESG factors can have a material impact on long-term investment performance (Arjaliès & Bansal, 2018; Young-Ferris & Roberts, 2021), as well as competition within the PE industry pushing firms to differentiate themselves; where integrating ESG can be a way to stand out (Crifo & Forget, 2012).

The current state of ESG integration in PE is still evolving, with a notable trend being the shift from negative screening to engagement. Zaccone and Pedrini (2020) argue that early approaches primarily focused on negative screening, excluding companies in specific sectors (e.g. tobacco, gambling) considered unethical or unsustainable. However, Zaccone and Pedrini (2020) suggest a transition from a predominant focus on negative screening towards a broader incorporation of ESG factors into PE practices (Zaccone & Pedrini, 2020). One such activity includes the emergence of impact investing, which involves intentionally seeking both financial returns and measurable social or environmental impact (Lange & Badaki, 2023). Yet another trend within the integration of ESG includes the increasing incorporation of ESG considerations into the DD processes to identify and assess potential ESG risks and opportunities (Zaccone & Pedrini, 2020), aligning with Lange and Banadaki's (2023) observation that ESG criteria are predominantly used during the DD phase or investment decision, except in cases such as impact investing strategies. Environmental information, in particular, has been shown to influence investment decisions, with literature suggesting that investors consider environmental factors when making allocations, especially for short-term investments (Holm & Rikhardsson, 2008).

Lange and Banadaki (2023) note that smaller VC firms often struggle to systematically implement ESG due to resource constraints, further emphasizing the variability in ESG integration across firms. Once investments are made, PE firms are also integrating ESG into portfolio company management by setting ESG targets, implementing policies, and monitoring progress (Zaccone & Pedrini, 2020).

Despite advancements in ESG integration, significant challenges remain. A significant challenge is the absence of standardized frameworks for ESG performance, resulting in inconsistencies in how ESG risks and opportunities are identified, integrated into strategies, and evaluated for their impact on value creation (Adams, 2017). Another challenge is quantifying the financial value of ESG impacts. Fixed-income investment managers often struggle to incorporate ESG data into existing models due to the complexity and ambiguity of ESG factors and the absence of established methodologies to translate qualitative data into financial metrics (Arjaliès & Bansal, 2018). Arjaliès and Bansal (2018) also observe that equity managers employ creative methods, such as using visuals like emojis, to juxtapose ESG data with financial metrics, allowing for alternative calculative processes that account for qualitative aspects. Furthermore, Holm and Rikhardsson (2008) argue that while environmental data is more accessible, its influence varies—they found that environmental information impacts both short- and long-term investment decisions, but the effect is stronger for short-term choices, complicating ESG integration.

An additional challenge is the fundamental misalignment between financial and ESG accounting. Financial accounting focuses on transactions within corporate boundaries, often excluding societal impacts considered externalities. ESG data, however, addresses broader environmental and social performance, creating dissonance and integration challenges (Young-Ferris & Roberts, 2021). Another mismatch lies between traditional PE investment horizons (3–7 years) and the long-term nature of ESG issues, like climate change, adding to the complexity. The need for quick financial returns can deter investments in ESG initiatives requiring upfront costs but offering long-term benefits (Adams, 2017; Young-Ferris & Roberts, 2021). Finally, Zaccone and Pedrini (2020) highlight a lack of internal expertise as a significant barrier to ESG integration in PE, with 40.9% of surveyed firms identifying this as a challenge, particularly during DD processes.

Conclusively, the integration of ESG factors into PE investment decisions is a growing trend driven by investor and stakeholder expectations. While the full impact of this integration on

value creation and portfolio performance requires further research, PE firms are increasingly incorporating ESG considerations into DD and portfolio company management to identify and manage ESG risks and explore potential value-creation opportunities (Zaccone & Pedrini, 2020; Tsang et al., 2022). Moreover, regulatory efforts and increasing pressure from LPs and stakeholders have incentivized PE firms to prioritize ESG considerations, with firms leveraging ESG integration as a competitive differentiator (Crifo & Forget, 2012; Antonini & Gomez-Conde, 2024). However, significant gaps remain in understanding *how* ESG is practically implemented in the investment process. Challenges such as the lack of standardized metrics, difficulties in quantifying social and environmental impacts, and the mismatch between ESG's long-term nature and PE firms' shorter investment horizons complicate effective integration (Young-Ferris & Roberts, 2021).

2.1.3 Research Gap

While the academic literature acknowledges the growing importance of ESG in the investment landscape, there is limited clarity regarding how ESG factors are actually integrated into PE investment decision-making processes (Zaccone & Pedrini, 2020; Lange & Banadaki, 2023), leaving critical questions about the practical application of ESG unanswered. Although previous studies indicate that ESG considerations are gaining traction—such as Botsari and Lang's (2020) finding (as cited in Lange & Banadaki, 2023) that 70% of VC firms incorporate ESG criteria—this study was quantitative in nature, leaving key qualitative questions unaddressed. Specifically, we lack insight into the "how" and "when" of ESG integration, highlighting a need for qualitative research to capture the complexities and nuances involved in these processes. Zaccone and Pedrini (2020) further suggest moving beyond a simplistic view of ESG as solely a risk mitigation or value creation tool, arguing for a more nuanced exploration of how PE firms balance these perspectives.

Despite its increasing adoption, ESG integration within PE is still at an early stage, with significant variability in how it is implemented across firms. Key gaps in the literature include a detailed understanding of the practical tools and methods employed during ESG assessments, the specific stages in the investment process where ESG factors are most influential, and the organizational challenges faced when embedding ESG principles into decision-making frameworks. This thesis aims to address these gaps by focusing on the tangible actions and decisions made by PE firms throughout the investment process. Using a qualitative case study

approach, it seeks to uncover the "how" and "when" of ESG integration, shedding light on how stated ESG policies translate into actionable practices.

2.2 Theoretical Framework

This section explores the theoretical framework used to analyze the empirical findings in this thesis, specifically the concept of sensemaking and sensegiving (Weick, 1995: Gioia and Chittipeddi, 1991). Key terms essential for understanding the theory will be defined and discussed before being applied in the theoretical analysis (section 5.1).

2.2.1 Sensemaking and Sensegiving

Sensemaking was introduced by Weick (1995) as the process of creating meaning in situations that are unfamiliar, ambiguous, or unexpected. We adopt the definition of sensemaking derived by Maitlis and Christianson (2014): *"a process, prompted by violated expectations, that involves attending to and bracketing cues in the environment, creating intersubjective meaning through cycles of interpretation and action, and thereby enacting a more ordered environment from which further cues can be drawn."* It helps to understand how individuals, guided by their identity, prior experiences, and social interactions, construct an understanding of their environment and inform their decision-making (Weick, 1995). By clarifying how people interpret and respond to uncertainty, sensemaking provides a valuable lens for understanding behaviour within organizations. Particularly in high-stakes contexts such as evaluating investment opportunities or interpreting regulatory changes in financial markets, where the perception of the world is different from our expectations (Maitlis, 2005). Sensemaking helps to better navigate uncertainty by formulating a common understanding within a group and anchoring their interpretations in familiar frameworks (Weick, 1995). It emphasizes the individual aspect of interpreting a situation, linking it to their role and identity. In addition, the sensemaking process is retrospective, as individuals and organizations reflect on past events to develop a shared understanding (Weick, 1995). The sensemaking process is particularly useful in organizations undergoing change, as it facilitates collective action and sustains relationships (Weick, 1993). Weick (1995) provides a framework to examine the social interactions and organizational culture that shape how individuals interpret and make sense of uncertainty and unfamiliarity.

Sensemaking is often initiated by events, issues, or actions that appear confusing or surprising. Such events are disruptive to existing expectations and necessitate a process of interpretation

(Maitlis, 2005). All events and pieces of information interpreted by an individual are referred to as *cues*, with subsets of cues significant enough to disrupt how we make sense of the world referred to as *triggers*. These triggers signal the need to make sense of a given situation, prompting individuals to ask themselves, "What is going on?" (Maitlis & Christianson, 2014). In a process called *bracketing*, individuals filter and prioritize cues, guided by their prior experiences and social context (e.g. organizational norms), while disregarding others. This process is an integral part of creating *accounts*. Accounts represent a shared understanding (e.g., narratives, formal reports, or explanations) that can be communicated to others, enabling coordinated action (Maitlis & Christianson, 2014).

Sensegiving refers to the process by which individuals use sensemaking to interpret a situation and subsequently influence others to perceive it in a desired way (Gioia & Chittipeddi, 1991). Gioia and Chittipeddi (1991) describe it as a parallel process, wherein leaders interpret ambiguous or complex situations and simultaneously guide others' interpretations to align with their desired outcome. It is an interpretive process where leaders, stakeholders, or employees engage in persuasive or evocative language to influence one another (Maitlis & Lawrence, 2007). Gioia and Chittipeddi (1991) illustrate the iterative nature of sensemaking and sensegiving, where leaders continuously shift between interpreting a situation and employing sensegiving to shape a shared understanding, adjusting their approach based on feedback and evolving circumstances. Leaders engage in sensegiving by a set of triggers, when an issue is of uncertain nature and is within a complex stakeholder environment (e.g. many conflicting interpretations of reality). On the other hand, triggers for stakeholders are the perception of incompetence among leaders to solve the issue and the importance of the issue itself (Maitlis & Lawrence, 2007). Additional factors important to enable sensegiving is related to how stakeholders (e.g., employees or investors) must feel knowledgeable and credible to share input, and they require appropriate forums to do so (e.g., meetings, committees, or information channels). Maitlis and Lawrence (2007) further notes that leaders prior experience determines the likelihood of sensegiving to take place as it allows for persuasive and trustworthy narratives to be formulated.

2.2.2 Sensemaking in a social context

We will use the framework developed by Maitlis (2005) to apply sensemaking and sensegiving in a PE firm. The framework delves into understanding social interaction between leaders and stakeholders where particular emphasis on sensegiving—how leaders and stakeholders shape

other's understanding of organizational issues. The act of sensemaking is a fundamentally social process where members in organizations create meaning and understanding of the world through its interactions with others. This enables the creation of accounts and in turn allow members to understand the world and act collectively (Maitlis, 2005). In contrast to previous research, where situations of crisis and turbulent scenarios has been examined, Maitlis reviews sensemaking over a longer period of time in a setting more typically associated with traditional organizations.

Maitlis (2005) identifies two areas of interest. Firstly, how *leaders* engage in sensegiving, which is measured as high or low based on a qualitative assessment of their engagement in sensegiving activities. Secondly, how *stakeholders* engage in sensegiving, also defined as high and low, based on the frequency of their sensegiving activities and the extent to which they influence leaders (Maitlis, 2005). The interaction between leaders' and stakeholders' sensegiving results in four *forms* of sensemaking: guided, fragmented, restricted, and minimal. The guided form of sensemaking emerges when both leaders and stakeholders engage in high levels of sensemaking. In this form, leaders manage and structure discussions, often in private settings and by providing examples, to influence the understanding. Stakeholders are actively engaged, offering their perspectives and influencing the collective interpretation of events (Maitlis, 2005). This form generally produces single comprehensive accounts of different scenarios, incorporating a multitude of perspectives. In situations where leaders are less involved, and the engagement is high from stakeholders it results in sensemaking in a fragmented form. This implies that numerous stakeholders contribute to a shared understanding, while leaders remain passive, refraining from guiding or organizing stakeholder input. As a result, multiple, narrower accounts emerge, which may sometimes conflict with one another (Maitlis, 2005).

Sensemaking adopts a restricted form when leaders demonstrate a high level of sensegiving engagement, while stakeholders generally exhibit low engagement. Exceptions to this include certain higher-valued stakeholders who interact with leaders in more private settings, such as individual or small-group meetings (Maitlis, 2005). A restricted form of sensemaking results in accounts that primarily reflect the leader's perspective. This approach leads to a predominance of one-time actions shaped by the leader's interpretation, which are collectively accepted by stakeholders without significant alternative perspective (Maitlis, 2005). Lastly, the minimal form of sensemaking arises when stakeholders are minimally engaged in sensegiving, and leaders make little effort to influence others. Consequently, both parties tend to avoid addressing the issue at hand, resulting in limited to no discussion and a lack of shared understanding. This

results in “nominal” accounts that produce only a superficial understanding of the issue, leading to temporary, one-time actions that fail to address the underlying problem (Maitlis, 2005).

3. Method

The following section provides a brief overview of the case company and the specific background relevant to this thesis. It then outlines the research design and data collection process, followed by a detailed explanation of the data analysis process.

3.1 Case Background

This study focuses on a small to mid-sized Swedish PE firm which, while not explicitly centered on sustainability, has made substantial advancements in its sustainability initiatives. Founded in the 1990’s by a group of partners with varying background in the investment banking and financial sector, the firm set out to generate a return without compromising its goal of *“making an actual impact.”* The firm primarily targets private Nordic companies in the lower to mid-size segment across a wide range of industries and sectors, reflecting a generalist approach. It currently has a portfolio of 19 companies, partly or fully owned, with two active funds.

The smaller size of the PE firm enables most employees to participate in investment decisions, albeit to varying degrees and at different stages of the investment process. To gain a comprehensive overview of the investment process and the role of each team (e.g., deal teams and a sustainability team), interviews were conducted with several employees holding diverse roles and titles.

3.2 Research Design

This thesis aims to understand how ESG factors are integrated into the investment decision-making process at a PE firm, as traditionally it has been ambiguous how to enact on qualitative data. As highlighted above, ESG is a broad definition formulated by practitioners, albeit with varying interpretations. In situations where reality is subjectively interpreted rather than objectively defined, Ahrens et al. (2006) advocate for the advantages of a qualitative approach. Given the context of investment decision-making and the consideration of ESG factors, a qualitative approach was therefore deemed appropriate for this study.

An explorative case study was chosen for this study to examine the role of sensemaking and sensegiving in a PE firm (Scapens, 1990). To deepen our understanding of how ESG is

integrated into financial investments, an in-depth case study was conducted (Dubois & Gadde, 2002), using semi-structured interviews to access individual perspectives (Kallio et al., 2016). Furthermore, to gain a detailed understanding of the social dynamics and delicate interactions inherent in investment decision-making, a single case study approach was selected. Our research revealed a varying degree of attention paid to ESG and differing perspectives on how it should be incorporated among PE firms. Hence, an essential consideration for conducting this study was the presence of some degree of ESG integration in investment decisions. PE firms that devote minimal or no attention to ESG factors in their decision-making offer limited insights of integration. Therefore, to gain sufficient insights, the case study should involve a firm that considers ESG factors when making investment decisions.

Lastly, an important consideration was obtaining access to conduct this study effectively. We initially reached out to several generalist PE firms but chose to work with the first firm willing to collaborate with us, making this a convenience-based selection (Robinson, 2014). The selected firm for this single case study, a Stockholm-based PE firm, provided access and demonstrated a well-formulated approach to incorporating ESG considerations into its investment decisions. Notably, the firm was not exclusively focused on ESG (i.e. not an impact fund), which broadens the understanding of ESG integration within a traditional generalist PE context.

Data was collected primarily through interviews, which were analyzed at both individual and organizational levels using the theoretical framework of sensemaking and sensegiving. Both perspectives are essential to address the research question on how ESG is integrated into the investment decision-making process within a PE firm.

3.3 Data Collection

To capture the in-depth complexity of ESG integration, interviews were conducted to encompass a broad range of expertise, authority, and perspectives within the firm. This approach ensures multiple viewpoints on similar processes, providing a deeper understanding of how different stakeholders interpret ESG. Given the social nature of sensemaking (Weick, 1993), additional documents were reviewed to compare real-world practices with stakeholders' subjective interpretations. Furthermore, contextual interviews were conducted with representatives from other firms in the industry to deepen our understanding of the industry context.

Primary Data

Interviews were conducted with five employees of the case firm, including three partners, a sustainability professional, and an investment professional. An overview of the respondents, including their roles and company, is provided in Appendix 8.1. These candidates were selected to provide a broad understanding of various perspectives on ESG and its integration into investment decisions. We interviewed senior partners with extensive experience in the finance sector and years of investment expertise, as well as junior professionals with 3-4 years of experience from both the investment and sustainability teams, to capture the viewpoints of newer, younger professionals. Together, these interviews offer a coherent understanding of the interplay between individual subjectivity and how it translates to an organizational level. Our initial contact within the case firm was established through the sustainability professional. As highlighted by Stubbs and Higgins (2014), individuals tasked with ESG responsibilities are likely to be involved in its integration process. Using semi-structured interviews, the sustainability professional's insights served as a deliberate starting point for developing further interview questions, providing a solid contextual background on the firm's current ESG integration efforts. This approach allowed for a more tailored set of questions, differentiating between senior and junior investment professionals. Consistent with Stubbs and Higgins' (2014) findings, the investment professionals who volunteered for interviews demonstrated a genuine interest in the integration of sustainability within the organization. While we aimed to access a larger sample of investment professionals at the selected case firm, this was not feasible given their current workload and time constraints.

In addition to the interviews conducted with the firm, contextual interviews were conducted with an impact manager at an impact fund, an ESG manager at a German asset management firm, and two investment managers at separate VC firms. These interviews provided supplementary insights and broader industry perspectives, helping to refine the scope and depth of the primary research conducted with the firm. While not directly included in the analysis, the contextual interviews enriched our understanding of ESG practices across different investment contexts, contributing to the development of a robust interview framework.

Five out of the nine interviewees requested to review the interview guide prior to the start of the interview. All interviews were recorded with consent obtained beforehand and transcribed to ensure the accuracy of the data used for analysis. The interviews conducted with the case firm were held in Swedish and were translated into English before the analysis.

Two of the interviews were conducted in person at the firm's office, while the remaining seven interviews were held via Google Meet, with each interview lasting between 30 and 61 minutes. Consistent with the findings of Jenner and Myers (2018), we observed no significant impact from conducting interviews digitally. Rather, the use of digital platforms alleviated logistical challenges, enabling interviews to take place when in-person meetings were not feasible.

Secondary Data

In addition to the primary data collected, websites and documents from a range of comparable PE firms were reviewed to gain a comprehensive understanding of how our case firm compares to others in the industry. Although these sources are not directly included in the primary analysis presented in Section 4.0, they were essential in contextualizing the findings from the case study.

3.4 Data Analysis

We will be using the extended work by David Bryne (2022) of Reflexive Thematic Analysis to conduct our thematic coding, originating from Braun and Clarks' work (2006). Following each interview, we collaborated on transcribing the recordings to ensure accuracy. While audio files were retained during the transcription process, they were not considered as data, with the transcribed interviews serving as the primary data source.

After each interview, an initial review of thematic codes was conducted, which were iteratively refined as subsequent interviews were conducted. Using an iterative process can strengthen the qualitative analysis by incorporating the researchers' perspective and provides a useful approach for less experienced researchers (Srivastava & Hopwood, 2009). This process resulted in four to five themes being identified per interview after revisiting the initial coding. During the analysis phase, findings were continually revisited and compared to earlier results, allowing us to identify the need for further analysis and refine our understanding. These themes were refined and adjusted through iterative reviews of the material, culminating in three overarching themes that encapsulated the relevant data from all interviews, each with its own sub-themes. The three primary themes identified were: "Evolution of ESG as a Decision-Making Priority", "Systematic ESG Integration Across the Investment Life Cycle", and "Challenges and Stakeholder Dynamics in ESG Implementation".

Our analysis consists of first examining the material based on the three themes that have been identified during the reflexive analysis. The following section (4.0) outlines the empirical findings from the interviews and is followed by a theoretical review (section 5.1) of the

investment decision-making process and the current form(s) of sensemaking. Using the Reflexive Thematic Analysis by David Bryne (2022), we have primarily used a constructive approach as the understanding of ESG is constantly evolving in a social context. A predominantly inductive approach was used to understand the context of the specific case firm, with deductive elements acting as a foundation for enhanced understanding and integration with sensemaking. The coding has been a hybrid of both sematic and latent coding to both capture explicit statements from interviewees while also enabling interpretation in the process of sensemaking (Bryne, 2022).

4. Empirical Findings

This section presents a detailed exploration of the empirical findings, focusing on how ESG is integrated into the investment decision-making process of a PE firm. The analysis is structured into three empirically driven themes: the evolution of ESG as a decision-making priority (4.1), systematic ESG integration across the investment life cycle (4.2), and challenges and stakeholder dynamics in ESG implementation (4.3). These themes are grounded in the empirical findings of the study.

4.1 Evolution of ESG as a Decision-Making Priority

The following section explores how ESG has grown in importance within the firm, transitioning from an optional consideration to a fundamental aspect of investment decision-making. It reflects how cultural values, strategic priorities, and external pressures have collectively influenced the prioritization of ESG in the firm's investment strategy and decision making.

4.1.1 Cultural and Organizational Integration of ESG

A key reason for the firms' significant progress in integrating sustainable practices is the creation of an environment where such initiatives are both welcomed and valued. Since the founding of the firm, progress has been continuous to transform the firms in several ways, outlined by Jakob:

> "When I joined the firm in 2008 we were a group of 11 guys, all were partners and there was no structure in place. […] We have since managed to build a better firm in so many ways. Most leave the office around half-past six to take care of their families. There must be a sense of internal sustainability as well." (Jakob, Partner)

This supportive culture has been crucial in enabling the Sustainability Manager to facilitate the integration process with minimal friction. The ability to establish this environment is partly attributed to external pressures on the firms' team, particularly the increasing regulatory requirements. As explained by Lisa:

> "They [the partners] realized that when a lot of regulations and reporting requirements for investors started emerging, they couldn't manage it internally and needed to create an additional role. This role was specifically focused on sustainability, and that's when I joined. It has actually been a very smooth environment to work in because there was very strong buy-in from the moment I started. We have a few passionate individuals, for example within the partner group, who have made it very easy because they believe this is extremely important." (Lisa, Sustainability Manger)

The role of the sustainability manager is certainly highly valued within the firm and plays a pivotal role in facilitating organizational integration, as expressed by Jakob:

> "She keeps us in line regularly when new things happen. It was tough for us when she was on maternity leave. When she came back, a lot had happened, and it felt like going back to school to try to get up to speed again. We are completely dependent on her." (Jakob, Partner)

Another influential aspect is the attitude of dividing the tasks within the firm. Senior members of the partner group emphasize that the workload is evenly distributed among team members, regardless of their level of experience. However, the distinction lies in the allocation of responsibility, with more senior members assuming a greater share of it. Felix mentions that:

> "We're a small and fairly tight-knit team, so everyone does the calculations, everyone prepares materials, and everyone has to think critically and ask challenging questions to the companies we evaluate. So, in terms of the role and what people do, it's not really all that different. The main difference lies in the amount of responsibility each person carries." (Felix, Associate Partner)

There is a strong emphasis on ensuring that employees have a clear understanding of the most recent developments, including evolving regulatory standards. To achieve this, Lisa conducts various internal training sessions aimed at aligning the understanding between the sustainability team and the rest of the firm. This process is agile and is not solely a one-way communication from the sustainability team to the rest of the firm; Lisa also uses these sessions to gather insights how to best support the deal teams. This is demonstrated by Julia:

> "Lisa is really good at driving this forward by organizing training sessions with us. It's a bit ad hoc as well, depending on what's relevant at the moment. In a week or so, we'll probably have another session on science-based targets to further push these initiatives into our portfolio companies. Right now, CSRD is very topical, and I think the majority of our companies will need to comply with that regulation next year" (Julia, Investment professional)

At the firm, formal decisions in the Investment Committee (IC) are made by the five partners, but the remaining team members are encouraged to attend and contribute during the meetings. It serves a dual purpose as Jakob suggests:

> "Everyone participates in the [investment] discussion, for several reasons. Firstly, so they understand what is happening. Secondly, they might learn something in the process. Most importantly, they are talented individuals who contribute with valuable input, which might otherwise be overlooked." (Jakob, Partner)

Notably, ownership and profit are distributed equally among employees at varying seniority levels unlike some of the firm's peers in Stockholm. This approach fosters a strong sense of teamwork and a shared commitment to doing good, with a long-term focus on creating meaningful impact, summarizing how ESG is integrated into the firm's culture, as Jakob says:

> "… I believe that when someone takes a job here, they don't get the highest salary compared to what they might get elsewhere. […] Everyone here is a co-owner on the same terms as everyone else. […] This is based on the idea that we trust each other and work together, and it's an extremely long-term perspective. Sharp elbows would never work here. We function as a team and work together." (Jakob, Partner)

4.1.2 ESG as a Strategic Imperative

During the interviews it was evident that ESG is also considered to strengthen the grounds on which an investment decision is made. For instance, it acts as a differentiator of the firm compared to peers. The idea of using ESG as a key driver for long term value creation is embedded within the firm as it strengthens the position of the firm:

> "We've also noticed over the past few years that, valuation-wise, if you've successfully positioned companies well in terms of sustainability, you get a slight valuation premium, I would say. This is partly because it attracts a different type of investor with high sustainability requirements." (Felix, Associate Partner)

The integration of ESG extends beyond mere compliance with reporting standards and pressures from LPs. Instead, there is an internal drive within the team to exceed basic reporting

requirements and deliver more than what is expected. This ambition helps establish a unique position for the firm compared to its peers. An important aspect of this process involves setting goals that demonstrate tangible improvements over time, highlighting progress relative to past performance, as is underscored by Felix:

> "It is a very important aspect from a competitive perspective to be good and structured when it comes to sustainability. Partly to be able to report what is required, but also to demonstrate, for example, that we have Science Based Targets. For instance, we set a goal one year and then, a few years later, we can show that we have made progress." (Felix, Associate Partner)

To fully realize the benefits of integrating ESG into the decision-making process for potential investment cases, the firm emphasizes that sustainability should be seen not merely as a cost but as an opportunity for portfolio companies. This perspective is highlighted by the firm as a crucial element in its ability to create long-term value. Erik mentions that:

> "Partly because we believe it's the right thing to do but also because we think this will create competitive advantages in the short- and medium-term perspective. […] Some people only see it as a cost. Yes, it is a cost. It's an increased cost. But it will also create competitive advantages. I usually compare it to how we look at quality. You can choose a [desired] level on a scale – how much is good enough? But we know that quality creates competitive advantages, and it's the same with sustainability." (Erik, Partner)

Conclusively, in investment decisions, it is not critical for a target company to be an industry leader in sustainability. While such a position is never perceived negatively, striving for industry leadership often entails disproportionate costs, potentially diminishing the investment's appeal. The firm acknowledges that the importance of ESG is not uniformly prioritized by external investors. However, the firm believes that as regulations begin to carry greater financial implications, ESG considerations will increasingly provide tangible value, as noted by Jakob:

> "I think that, unfortunately, it's still the case that those [LPs] who invest in funds are more driven by money than by "green hearts". I believe [that] a lot of the pressure currently comes from regulations, which are still quite backward-looking and mainly focused on reporting. The interesting part will come when there are actual costs associated with greenhouse gas emissions—when it becomes truly expensive to emit greenhouse gases, even for small companies. That's when real change will happen." (Jakob, Partner)

4.2 Systematic ESG integration across the investment life cycle

This section examines how the firm systematically incorporates ESG considerations throughout the investment process, from initial screening to post-investment alignment. It highlights the structured approach taken to evaluate ESG factors, the tools and frameworks employed, and the integration of sustainability into decision-making and value creation strategies. As noted by Lisa, the firms' understanding of ESG is influenced by the following:

> "… when I speak with investors, I say ESG because that's the term they want, and that's what they've adopted. In general, when I think about sustainability, I would break it down into four areas, two of which are essentially part of the S in ESG. The first is the environment, and this isn't just about emissions and climate change but also includes biodiversity and chemicals. I think if you look at CSR standards, it's quite clear what should be included under the environment. Then, the two areas that have essentially been merged into the "S" in ESG are human rights and labor rights—the social aspects. And finally [the G], is about business ethics and the governance aspect." (Lisa, Sustainability Manager)

4.2.1 Screening ESG Factors in Potential Investments

The initial stages of the investment process at the firm, starting with the receipt of a teaser or an Investment Memorandum (IM) from M&A advisory firms or target companies, represent the first opportunity to evaluate the ESG performance of potential investments. These early materials provide the foundation for identifying material risks and opportunities, which inform subsequent DD and decision-making. The firm adopts a structured approach to evaluating ESG factors during this phase, beginning with exclusion criteria and progressing to a detailed multi-faceted assessment. This process is initiated during Monday meetings, where the entire team reviews incoming deal flow to decide which opportunities warrant further analysis:

> "Our initial screening focuses on exclusion criteria. If a company operates in certain sectors, we simply don't consider the case. These criteria are largely based on requests from our LPs but also follow standardized frameworks. Typically excluded sectors include alcohol, extreme weapons, oil and gas production, and pornography—industries that are generally regarded as problematic." (Lisa, Sustainability Manager)

Once a potential target company passes the initial screening, the firm conducts a more comprehensive "First Impression Analysis" of its ESG performance, where publicly available resources help guide the understanding of what to prioritize as key sustainability issues, as Lisa, the Sustainability Manager, explains:

> "… we refer to public sources such as SASB's Materiality Map, which outlines sustainability topics for each industry and sub-industry. We haven't created our own material in that sense but instead rely heavily on external sources, such as Transparency International, when assessing geographic exposure. We've put together a list of things you can check. Based on that, we start to summarize what's relevant for us to look into in the future." (Lisa, Sustainability Manager)

The firm's commitment to aligning its portfolio companies with Science Based Targets (SBTs) adds another layer to the initial screening process. During this phase, the deal team assesses the target's current readiness to meet SBTs and evaluates whether the company has the potential to align with these goals. This assessment is facilitated by the firm's internal "Science Based Target Maturity Tool", which acts as a model for making an initial estimation, developed by Lisa. Additionally, the team considers the target's exposure to current and upcoming ESG regulations, such as the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy. If a target company demonstrates limited capacity to comply with climate-related standards or regulatory demands, it is flagged as a potential challenge that may influence the investment decision or require post-acquisition effort. This stage of the process also includes engagement with the target company's management. Insights gathered during initial screening are validated and supplemented through management interviews, where the firm addresses specific ESG concerns and opportunities in greater detail.

While the sustainability team does not directly participate in the screening process, it plays an essential supporting role. Lisa provides the deal team with curated resources and internal tools and offers guidance on navigating ESG regulations and frameworks. These contributions ensure the screening process is consistent and aligned with the firm's sustainability strategy, this is explained by Lisa:

> "We have a general process for our investments, covering how we analyze and present material to our investment committee. In this process, we've integrated sustainability aspects into the documentation, as well as into the analysis of risks and opportunities. The idea is to have a process that all deal teams can follow, and I'm available to support them if they need extra help identifying risks and opportunities or scoping the due diligence" (Lisa, Sustainability Manager)

The initial ESG assessment is qualitative in nature, focusing on identifying material risks and opportunities rather than quantifying financial impacts. This evaluation helps scope key areas

for deeper analysis during the ESG DD phase and highlights ESG factors to be addressed by the IC.

4.2.2 ESG in Due Diligence and Decision-Making

Following the initial screening, the firm embarks on a detailed DD process, culminating in an investment decision made by the IC. The firm's IC meetings are structured into three stages, progressing from an initial analysis to the consolidation of DD findings and the development of a post-acquisition enhancement plan. As described by Lisa in her interview:

> "We have three investment committee meetings. In the first, it's more of an initial analysis. Then it moves on to the next stage, where we have a better picture and are ready to scope the due diligence. At that point, we start understanding what we need to examine. In this stage, we always bring in external advisors for all our due diligence. […] In our final investment committee meeting, we consolidate all the due diligence findings, including the sustainability aspects, which are integrated into it." (Lisa, Sustainability Manager)

A critical component of the DD process is the dedicated ESG DD, conducted with the support of external consultants. The ESG DD is scoped based on the initial assessment conducted during the screening phase and focuses on material areas—for instance, supply chain risks, environmental performance, and social impact. The selection of external consultants depends on their expertise and recent performance in the relevant domains. The consultants' findings are then summarized in detailed reports that assign ratings across categories, indicating the target's maturity in key ESG dimensions. The process is described on several occasions:

> "We look at what the major risks are in this industry. It can range from their own production to whether they source a significant amount from non-European countries. […] It could become a significant cost if a company doesn't have proper oversight of its supply chain. There can also be considerable risks in the supply chain if it's not managed correctly. Sourcing from Asia doesn't necessarily have to be a problem at all. There are plenty of companies sourcing from Asia with excellent control over their supply chain. They ensure there are no bribes, no child labor, and they know exactly which subcontractors they work with. But it can also be total chaos." (Erik, Partner)

> "The due diligence findings are then incorporated into the investment decision memorandum, which is submitted to the investment committee. This memorandum outlines why we recommend proceeding with the investment, including all relevant information such as sustainability data. It covers identified risks, the company's maturity level in terms of sustainability, what they measure or don't measure, governance, and insights from the due

> diligence. […] What we identify there will be addressed later when we develop the companies, should we proceed with the investment" (Julia, Investment Professional)

As described by Julia, the ESG DD findings are integrated into the IM alongside insights from other DD streams, and hence a crucial step of the decision-making process. Furthermore, the IM is a central document presented to the IC, ensuring that ESG considerations are factored into the final investment decision alongside financial considerations. Material ESG risks and opportunities identified during the DD phase are key topics of discussion within the IC, where partners deliberate on the implications for the investment. Lisa exemplifies the importance of ESG considerations in the documentation as mentioned below:

> "We have a template for these analyses that outlines what we need to examine and the information to fill in. Sustainability is incorporated throughout the process. For example, we have a section for key findings in specific areas, and sustainability is one of them. In the enhancement plan, sustainability is also included as a component." (Lisa, Sustainability Manager)

> "I would say that we have very good documentation and space for sustainability findings in our materials, which also makes it visible when we discuss and review them. In some cases, sustainability isn't very critical—it's more of a checkbox […] However, in other cases, it's essential in order to understand a challenge or identify an opportunity that could define the case. In those situations, sustainability gets the attention it deserves." (Lisa, Sustainability Manager)

The IC itself is composed of the firm's partners, the CFO, and the Head of Sustainability, with the partners holding decisive votes. For an investment to be approved, a qualified majority of three out of five partners must vote in favor. While Lisa and other team members do not have formal voting roles, they actively participate in IC discussions and are encouraged to provide input on ESG considerations, exemplified in Julia's interview:

> "Even though the partner typically leads the presentation, there's always alignment when presenting to the investment committee. If I'm not part of the deal team, I still have the opportunity to listen in and provide input during these meetings. Associates are encouraged to join the investment committee meetings when they have time and are always welcome to share their comments and feedback, which are genuinely taken into account." (Julia, Investment Professional)

Ultimately, the firm's investment decision is based on a holistic assessment that balances financial performance, growth potential, and ESG considerations. This decision-making

process is characterized by a collaborative approach, involving input from the investment team, sustainability experts (e.g. Lisa and the sustainability team), and external consultants. It is also informed by data collection and analysis—supported by both internal tools and external benchmarks. Transparency is maintained throughout the process, with open discussions within the IC and clear communication of ESG considerations to stakeholders.

4.2.3 Post-Investment Considerations

Although post-investment considerations are primarily implemented after an investment decision has been made, they play a critical forward-looking role in the firm's decision-making process. The firm's commitment to enhancing the sustainability performance of its portfolio companies translates into additional costs and strategic efforts that must be evaluated during the investment phase. These considerations influence whether an investment is viable and how it aligns with the firm's broader ESG and value-creation objectives.

One central tool in this process is "The [the firm] Way", a framework that includes an extensive list of criteria that portfolio companies are expected to meet, many of which are directly tied to sustainability and ESG practices. This tool assesses various criteria, including financial reporting, management structure, and sustainability management. Companies scoring poorly on sustainability-related criteria raise concerns about the feasibility of improvement during the investment period. In such cases, the firm develops a detailed enhancement plan to address any identified gaps.

> "We are the ones who determine the scoring system, where companies receive a score between 0 and 100. When we acquire an entrepreneur-owned company, much of the information often resides in the entrepreneur's head and isn't documented. Such a company might score below 80. Our job is to structure and document the information. […] We can still acquire such a company, but we understand it may take 4–5 years to reach a score of 80 or above, which is the [minimum] standard we expect all of our portfolio companies to meet." (Felix, Associate Partner)

The enhancement plan outlines specific actions and investments required to improve the company's performance in areas such as sustainability strategy, governance, and compliance with regulatory requirements. These measures often involve hiring ESG personnel, implementing key ESG programs in connection to SBTs, and improving supply chain practices. The cost implications of implementing these enhancements are factored into the financial analysis during the investment decision phase. For example, companies lacking a dedicated

sustainability manager or robust ESG policies may require additional personnel and resources, which increase costs, as underscored by Jakob:

> "There are parts that are really simple—for example, identifying gaps where a company isn't complying with legal requirements. Then you just add some money into the model, like hiring a person to handle it. Often, it boils down to needing a sustainability manager. We've seen clearly that if there's no dedicated person, things don't get done properly. So, having someone who truly takes responsibility is essential, and that can be quantified." (Jacob, Partner)

While these ESG enhancements represent upfront costs, the firm weighs them against the potential for long-term value creation. Enhancing a portfolio company's sustainability practices can improve its valuation, as mentioned by Felix in section 4.1.2, making it more attractive to responsible investors and meeting the expectations of sustainability-conscious customers. These improvements may ultimately lead to higher exit valuations. The firm prioritizes investments where the implementation of "The [the firm] Way" and the enhancement plan can meaningfully enhance the company's overall value proposition.

> "We approach sustainability in a way that strikes a good balance […] For example, identifying companies we can lift where it will have a significant positive impact, rather than investing millions of kronor for minimal returns. While that might be good, those funds could instead be invested in another company where the impact is greater […] We are managing other people's money and need to generate the best possible returns. So, investing millions in improving environmental efforts that result in minimal reductions in emissions or other effects, and that don't increase the company's value, is ultimately irresponsible towards our investors." (Erik, Partner)

Management team alignment is another critical factor influencing post-investment considerations and, by extension, the investment decision. A receptive and engaged management team is essential for the successful implementation of ESG initiatives post-acquisition. During the investment process, the firm evaluates whether the target's management shares its ESG vision and demonstrates a commitment to driving meaningful change. Without this alignment, the likelihood of achieving planned ESG enhancements diminishes, creating potential risks for the investment. Julia goes in detail to explain this further:

> "For me, and as I believe the team feels, we work on these issues because we see them as part of building long-term shareholder value. If a company doesn't have reporting in place, then we'll establish proper reporting. However, it's crucial to have a management team that also values these efforts. Just because they don't currently have someone in place doesn't mean it's

> a dealbreaker—we can hire someone, which is a positive step. But it's essential that the rest of the management team, including the CEO, is fully onboard with the journey. Otherwise, it could be a major red flag." (Julia, Investment Professional)

Conclusively, post-investment considerations and stakeholder alignment are integral to the firm's investment decision-making process, ensuring that ESG initiatives can be effectively implemented to create long-term value. By evaluating the readiness of potential portfolio companies and their management teams to embrace ESG enhancements, the firm mitigates risks and ensures the successful integration of ESG enhancements.

4.3 Challenges and Stakeholder dynamics in ESG implementation

In the subsequent section we explore the challenges the firm faces in integrating ESG considerations into its operations and decision-making processes. It examines the difficulties of quantifying ESG factors, balancing competing priorities between stakeholders, and aligning ESG goals with financial objectives. Additionally, it highlights the complexities of navigating internal and external stakeholder dynamics and the firm's efforts to foster collaboration and consistency across its portfolio.

4.3.1 Challenges in ESG quantification

The firm encounters several challenges in integrating ESG considerations into its investment decision-making processes, many of which stem from difficulties in quantifying ESG factors. These challenges arise due to a lack of standardized metrics, limited data availability, and the inherent complexity of forecasting the financial impact of ESG initiatives. One significant obstacle expressed is the lack of standardized metrics and data within the ESG landscape. The evolving nature of ESG reporting means there are no widely accepted benchmarks for measuring and comparing ESG performance across industries and geographies. While some progress has been made, inconsistencies in methodologies and data availability hinder effective comparisons between different products or companies. As Lisa and Julia point out:

> "I would say that one of the challenges in this entire field is obtaining quantifiable and comparable data. There are increasingly standardized calculations for things like a product's carbon footprint, for example. However, you can still calculate it in different ways, and depending on the emission factors you use, you get different results." (Julia, Investment Professional)

> "… the companies we invest in often don't have any sustainability data or similar structures in place. They usually start almost from scratch when they come to us. It's really about understanding what we need to focus on and determining whether this will be very challenging or relatively easy in relation to what we want to achieve." (Lisa, Sustainability Manager)

Finally, the firm faces significant difficulty in forecasting the financial impact of ESG enhancements, particularly when estimating long-term benefits. While the firm recognizes that ESG improvements can drive value creation, quantifying these benefits in financial terms is far from straightforward. Julia and Jacob acknowledge the disparity between predicting costs and revenues, stating:

> "What I find difficult to calculate is the potential upside […] I think the cost side is much easier than the revenue side." (Julia, Investment Professional)

> "… much of it is quite simple to put a price tag on. The difficult part is often understanding the commercial effects of either being very strong or not as strong in sustainability, which varies significantly between industries." (Jacob, Partner)

For instance, regulatory cost implications can often be estimated with reasonable accuracy, but predicting revenue potential—such as increased sales from sustainable products—is inherently more complex. This challenge is further exacerbated by the unpredictable nature of future regulations and shifting consumer preferences, as Julia puts it:

> "… let's say there's a finding that the company's operations will face significant regulatory changes in the future. What could that mean? […] How much will it drive costs? You don't know, because the regulation won't come into effect for another three years. That's difficult to assess." (Julia, Investment Professional)

4.3.2 Balancing ESG goals with financial returns and aligning stakeholders

Balancing competing stakeholder priorities is a persistent issue, as each group involved in the firm's investment decisions—LPs, portfolio company management, consumers, and the internal investment team—approaches ESG considerations with different priorities. For LPs, there is a growing demand for robust ESG performance and accountability. However, two varying perspectives within the firm highlight different dynamics at play. The first perspective argues that during economic downturns or periods of market uncertainty, financial stability often takes precedence for LPs, creating tension between sustainability initiatives and the pursuit of short-term returns. Lisa explains:

> "For example, there was a strong focus on climate strategies two years ago. Now, they [the LPs] almost don't care because there's so much else happening—macroeconomic issues, inflation, and so on." (Lisa, Sustainability Manager)

In contrast, the second perspective suggests that LPs demand for ESG integration has remained steady. Instead, it is consumer behavior that fluctuates, particularly in response to economic challenges. Felix observes:

> "I would say that, from our investors' perspective, they haven't wavered as much as society at large. They still seem to have their foot firmly on the ESG pedal, at least that's the impression I get. However, when you look at consumers, they've shifted focus quite quickly. When their wallets got a bit emptier, they seemed to prioritize other things fairly rapidly." (Felix, Associate Partner)

As portrayed above, consumers present yet another challenge in this dynamic. While there is a clear trend of customers expressing support for sustainable practices, the firm expresses that purchasing behavior does not always align with these stated preferences. This inconsistency complicates the justification for ESG investments, particularly when the expected market demand for sustainable products or services fails to materialize. This creates a disconnect that the firm must navigate when balancing consumer expectations with financial viability. As explained by Erik:

> "At the end of the day, companies respond to what consumers want. Take the fashion industry, for example. There are groups in society that are very vocal about sustainability issues […] but the same people buy clothes that are completely unsustainable. The textile industry accounts for 15-20% of global greenhouse gas emissions, and what we should do to truly make an impact is buy more expensive clothes and fewer items each year. But it's costly, and no one does it. So, how can we influence this? We do everything we can to produce sustainable clothing, but very few people buy it. True global sustainability changes must come from a shift in consumer behavior […] We can only try to enable that." (Erik, Partner)

Yet another insight from the firm is that portfolio company management, meanwhile, may be hesitant towards ESG improvements if they perceive them as costly or misaligned with immediate business goals, further detailed in section 4.1.2 by Erik.

The internal dynamics of the firm also contribute to challenges regarding alignment. Junior team members, often with financial backgrounds, may lack the knowledge to fully assess ESG risks and opportunities. While the firm benefits from Lisa's expertise as its main sustainability expert, this heavy reliance may create a bottleneck in ESG integration, and varying levels of

ESG knowledge among senior partners can lead to inconsistencies in how sustainability factors are prioritized. This internal variability exemplifies the challenges of achieving alignment within the firm itself, further complicating the balancing act between ESG and financial goals. As put by Lisa:

> "What I want to avoid is making it person-driven; instead, we need a systematic approach so that we do the same thing across all [portfolio] companies. This doesn't just apply to sustainability—I believe it applies to all areas. But depending on who is in the deal teams, different issues are prioritized. Everyone addresses all issues, but some do it much more actively than others." (Lisa, Sustainability Manager)

Inherent trade-offs between ESG initiatives and profitability add to these complexities. As Jacob described:

> "We only look at companies that make money. We don't do turnarounds or start-ups or anything like that. But I think our view is more that it's more important to make a difference in general. To take something that may not be perfect but make it better. Because then you're making some kind of difference" (Jacob, Partner)

Such trade-offs illustrate the tension between sustainability aspirations and maintaining competitiveness. To navigate these challenges, the firm emphasizes materiality and synergies between ESG and financial returns. By focusing on ESG issues most relevant to a company's industry—such as supply chain management for a textile business—the firm ensures resources are allocated where they will have the greatest impact. Investments that simultaneously enhance sustainability and profitability are prioritized, as highlighted by Jacob:

> "It's always about the low-hanging fruit—getting the best bang for the buck. A double materiality analysis is key: you map it out and identify what can be addressed easily, and that's where you start measuring and taking action. Of course, it varies between different companies." (Jacob, Partner)

Finally, the firm also seeks to foster alignment among stakeholders through open dialogue. Regular communication with LPs ensures their ESG priorities are understood and integrated into decision-making. Felix demonstrates that aligning with LPs on expectations is crucial for the firm:

> "[LPs] would not have invested in us if we were not good enough in their eyes on sustainability. They have so many private equity companies to choose from to invest in, so it's no problem for

them to opt out. They can always find someone they think is a better fit." (Felix, Associate Partner)

5. Discussion

This section synthesizes the key findings of the thesis, applying the theoretical lens of sensemaking, followed by the contributions to existing literature and the broader implications for PE firms integrating ESG considerations. It highlights how the case firm's advanced practices, internal culture, and smaller size influence its approach to ESG, providing insights into both challenges and opportunities of integration.

5.1 ESG Integration Through Sensemaking

The following section aims to apply the theoretical lens of sensemaking and sensegiving (Weick, 1995: Gioia and Chittipeddi, 1991) to explain the process of how ESG is integrated in the investment decision-making at the firm.

5.1.1 Triggers for Sensemaking

Sensemaking is often triggered by events or issues characterized by ambiguity, uncertainty, or a violation of expectations (Weick, 1995). Ambiguity arises when the meaning or implications of an event are unclear, while uncertainty reflects the unpredictable outcomes or consequences associated with it. A violation of expectations occurs when discrepancies emerge between what individuals anticipated and what actually transpires. Within the firm, several triggers exemplify these characteristics, prompting a reevaluation of traditional practices and the integration of ESG principles into the investment process.

One significant trigger is the shifting market environment, where increasing emphasis on ESG by investors and regulators creates external pressure to prioritize sustainability. Regulatory requirements such as the CSRD and EU Taxonomy impose stringent demands on transparency and compliance, challenging the firm to align its investment practices with evolving expectations. These regulatory pressures signal a departure from traditional investment models, prompting the firm to develop new methodologies and tools to evaluate ESG risks and opportunities effectively.

Internally, the deliberate decision to hire a dedicated Sustainability Manager reflects a planned organizational change aimed at embedding ESG into the firm's operations. The appointment of Lisa, whose expertise drives the firm's ESG strategy, serves as a critical turning point. While

not a traditional leader, her role as a sensegiver introduces a challenging vision for sustainability, catalyzing change across the organization. Competitive pressures heighten the need for adaptation, as the firm recognizes that robust ESG performance is critical to maintaining its market position. Through sensemaking, the firm brackets cues from competitors and evolving market demands, responding by committing to ambitious SBTs. This strategic response includes assessing target companies' readiness to align with these goals during the investment process, demonstrating its adaptive approach.

Additionally, the firm's interactions with potential investments often reveal ESG performance gaps, particularly in the DD phase. These gaps trigger further sensemaking as the organization evaluates the financial and operational implications of addressing these deficiencies. For example, when a target company lacks systems to comply with climate-related standards, the firm must interpret the associated risks and determine the feasibility of implementing necessary changes post-acquisition.

5.1.2 Constructing Intersubjective Meaning

Constructing intersubjective meaning is central to the firm's sensemaking process, as the employees work collaboratively to interpret and integrate ESG principles into investment practices. This process is facilitated by discursive practices, the influence of key actors, and the dominant sensemaking form within the organization.

Discursive practices, including narratives and tools, help shape shared understandings of ESG within the firm. Narratives emphasize the dual value of ESG—both ethical and financial—highlighting its role in long-term value creation. For instance, partners articulate the importance of aligning ESG initiatives with responsible ownership, fostering a sense of purpose across the organization. Practical examples, such as successful ESG enhancements in portfolio companies, reinforce these narratives by demonstrating the tangible benefits of sustainability. Language and tools also contribute to constructing intersubjective meaning. Metaphors, while less explicit, subtly guide action; for instance, describing ESG efforts as "low-hanging fruit" frames the prioritization of initiatives that are impactful and achievable. Furthermore, the use of tools like the "Science-Based Target Maturity Tool" or "The [the firm] Way" provides a standardized framework for assessing ESG risks and opportunities, creating a common language that facilitates collaboration and decision-making, resulting in shared accounts within the firm.

Lisa plays a pivotal role in this process, serving as a key sensegiver within the firm. Her expertise and active involvement in DD, regulatory compliance, and IC discussions ensure the consistent application of ESG principles across all stages of the investment lifecycle. She develops internal tools, trainings, curates external resources, and translates complex ESG standards into practical insights, enabling the investment team to incorporate sustainability effectively into decision-making. Her contributions provide both structure and strategic direction to the firm's ESG agenda.

As noted previously, the reliance on Lisa underscores the varying perspectives on the driving forces behind ESG adaptation within the firm (p.33). Lisa, drawing on her expertise in sustainability and her comprehensive understanding of the regulatory landscape, identifies the influence of LPs as the primary catalyst for ESG initiatives. Conversely, Felix, whose perspective is shaped by his financial background and direct involvement as a board member in portfolio companies, emphasizes customers as a critical driving force, viewing investor influence as relatively stable. This divergence highlights the inherently social nature of sensemaking and the absence of a singular, unified narrative for interpreting the motivations behind ESG adaptation.

However, this reliance on Lisa introduces potential risks for restricted sensemaking. Her central role may limit the emergence of alternative viewpoints or critical engagement with her assessments in terms of ESG, as her recommendations might, at times, be accepted without significant debate. Additionally, the firm's dependence on her expertise creates a bottleneck that could hinder progress if she is unavailable or departs. Potential variability in ESG knowledge among partners and team members further underscores this risk, as differing levels of expertise may lead to inconsistencies in how ESG factors are prioritized and evaluated.

Nevertheless, the dominant form of sensemaking within the firm remains guided sensemaking, which balances these potential risks with significant strengths. Partners actively promote ESG as a strategic imperative, providing top-down leadership that aligns the organization around sustainability goals. Lisa's role as a guide complements this approach, offering tools, frameworks, and expertise that ensure consistency in ESG integration across the investment process. While junior team members rely on this guidance, their growing involvement in ESG-related data collection and analysis contributes to a shared understanding of sustainability within the firm.

5.1.3 Action and Enactment of ESG Practices

Sensemaking at the firm extends beyond interpretation into action, as ESG principles are actively enacted through established processes and practices. The firm's frameworks, such as "The [the firm] Way," outline clear expectations for portfolio companies, including comprehensive ESG criteria. By implementing these frameworks, the firm not only guides behavior but also shapes the broader sustainability practices of its portfolio companies.

The integration of ESG into DD represents another form of enactment. By systematically evaluating the sustainability performance of target companies, the firm generates new insights that inform its investment decisions and shape its understanding of material ESG risks and opportunities. This proactive approach creates a demand for transparency, encouraging target companies to prioritize sustainability in their operations.

5.1.4 Outcomes of Sensemaking

The outcomes of the firm's sensemaking process are evident in its investment practices and organizational culture. ESG is currently systematically integrated into the firm's investment lifecycle, from initial screening to post-acquisition enhancement plans. This integration moves beyond rhetoric, demonstrating a deliberate effort to align investment decisions with broader sustainability objectives.

Processes such as targeted ESG DD ensure that material issues are identified and addressed, while tools like the "Science Based Target Maturity Tool" standardize assessments, fostering consistency across investment evaluations. The firm's enhancement plans, for instance via "The [the firm] Way", exemplify its commitment to post-acquisition ESG improvement, outlining strategies to address identified gaps and improve the sustainability performance of portfolio companies.

These efforts contribute to the construction of a narrative of responsible ownership, aligning the firm's practices with stakeholder expectations and market demands. This narrative emerges from the firm's ongoing sensemaking process, as it brackets cues from the environment, such as stakeholder expectations and market pressures, and interprets their implications for its operations. The firm's inclusive culture further supports this process by fostering an environment that enables sensegiving, a crucial aspect of guided sensemaking. However, the current reliance on Lisa's expertise in ESG could create vulnerabilities in the firm's sensemaking process. When Lisa's input is unavailable, the lack of shared understanding

regarding ESG principles might lead to fragmented sensemaking and conflicting interpretations of responsible ownership. This could hinder the firm's ability to consistently align its practices with its espoused narrative.

The recursive nature of sensemaking ensures that the firm continuously adapts to the evolving ESG landscape. Actions taken—such as implementing new frameworks or conducting ESG DD—generate new insights, which inform future strategies and practices. This cycle of adaptation positions the firm to remain competitive while maintaining its commitment to sustainability, demonstrating the interplay between action, interpretation, and learning. In short, the firm's approach to ESG integration reflects a sophisticated sensemaking process, where triggers, shared meaning, enactment, and outcomes converge to shape the current state of its sustainability strategy.

5.2 Key Contributions

The findings from this thesis align with existing literature in emphasizing the growing importance of ESG considerations. Consistent with Zaccone and Pedrini's (2020) study, this research finds that external pressures from LPs and regulatory bodies play a significant role in driving ESG integration. Similarly, Lange and Banadaki (2023) identify LPs as a primary driver for ESG adoption in VC. However, this thesis adds a nuanced perspective by revealing that the case firm's commitment to ESG extends beyond external pressures. Interviews with firm representatives suggest that internal values and leadership commitment to sustainability are equally influential. For instance, the firm continues to prioritize ESG integration even during periods of reduced LP scrutiny, demonstrating an intrinsic motivation that contrasts with the primarily compliance-driven approach described in the literature. Additionally, while Lange and Banadaki (2023) note varying degrees of ESG integration in VC, this thesis highlights a more advanced level of ESG integration within the case firm. This suggests that smaller PE firms, with their flexible structures and focused strategies, may be better positioned to embed ESG considerations into their processes. Importantly, this research addresses a significant gap by focusing on ESG integration during the investment decision-making process, an area that has seen limited exploration in the accounting literature.

Further, a key contribution of this thesis lies in its detailed exploration of how ESG considerations are integrated across the investment lifecycle, from initial screening to DD, decision-making, and post-investment monitoring. Unlike Zaccone and Pedrini's (2020) findings, which highlight the predominant use of checklists for ESG assessment, this thesis

identifies the use of more sophisticated tools and methodologies. The case firm employs practices such as comprehensive ESG DD, the incorporation of ESG costs into investment budgets, and the use of an internally developed "Science-Based Targets Maturity Tool." These practices go beyond risk management to identify ESG-related value creation opportunities, contrasting with Zaccone and Pedrini's (2020) observation that risk management is the most dominant form of ESG integration.

This thesis also diverges from Lange and Banadaki's (2023) finding that ESG in VC is largely confined to the DD phase. In contrast, the case firm incorporates ESG considerations from the earliest stages of investment screening and continues this focus throughout the investment lifecycle. For example, ESG topics are included in the initial "first impression analysis" presented to the investment committee and revisited in portfolio management discussions post-investment—highlighting the potential for smaller PE firms to serve as exemplars of systematic ESG integration.

An important finding of this thesis is the role of internal champions and organizational culture in advancing ESG integration. Key individuals within leadership, deeply committed to sustainability, have significantly shaped the firm's approach to ESG. This adds to Zaccone and Pedrini (2020), who identify a lack of internal expertise as a barrier, highlighting the unique advantage of having dedicated ESG champions within the organization. The thesis also underscores how a supportive organizational culture institutionalizes ESG practices. Collective involvement in ESG discussions, particularly during IC meetings, ensures that ESG is deeply embedded in operations rather than treated as secondary. This aligns with Arjaliès and Bansal's (2018) observation that ESG integration often requires a shift in calculative processes, adding that cultural alignment can mitigate resistance and foster collaboration.

Finally, findings on challenges in ESG integration provide further contributions to the literature. Consistent with Young-Ferris and Roberts (2023), this thesis identifies data availability and standardization as significant barriers to ESG integration, particularly when assessing early-stage target companies without established ESG frameworks. This thesis adds operational insights, showing how the firm mitigates these issues through internal tools and training. Furthermore, quantifying ESG impacts and aligning them with financial valuations is another challenge, similar to Arjaliès and Bansal's (2018) findings on the disconnect between ESG and financial data. Unlike the creative non-financial methods observed in their study, the case firm relies on quantitative tools, underscoring the need for further innovation.

6. Conclusion

This section summarizes the key findings of the thesis, discusses its practical relevance, and outlines limitations and directions for future research.

6.1 Key Findings and Practical Implications

This thesis investigates how a small to mid-sized Swedish PE firm integrates ESG factors into its investment decision-making process. The research highlights two main contributions. First, it reveals the evolution of ESG as a priority within the firm, driven not only by external pressures, such as regulatory requirements and investor expectations, but also by an internal commitment to sustainability. This contrasts with existing literature, such as Zaccone and Pedrini (2020), which emphasizes external stakeholder influence as the primary driver of ESG integration. Second, the study provides an in-depth examination of how ESG is systematically incorporated across the investment lifecycle, from initial screening to DD and beyond. Notably, the firm's approach extends beyond compliance, leveraging ESG as a strategic tool for value creation. This finding adds nuance to existing research by demonstrating how smaller, generalist firms can adopt advanced ESG practices typically associated with larger, impact-focused entities.

The practical implications are significant. For PE practitioners, the findings highlight the value of embedding ESG considerations early in the investment process and maintaining this focus through post-investment monitoring. The study also underscores the benefits of fostering a supportive organizational culture, with internal ESG champions and inclusive decision-making practices, to institutionalize sustainability. Furthermore, the case demonstrates how smaller firms can use their size as an advantage, enabling agility and collaboration that larger organizations may find more challenging. By going beyond regulatory compliance, the firm not only mitigates risks but also establishes itself as a leader in sustainable investing, potentially securing higher valuation premiums for portfolio companies.

6.2 Research Limitations, Future Research, and Final Remarks

Despite its contributions, this study has limitations. The single case study approach restricts the generalizability of the findings to other firms, particularly those operating in different geographical or regulatory contexts. Moreover, the qualitative methodology, reliant on interviews and document analysis, may introduce interpretive bias, as it reflects the perspectives of the researchers and the participants. Additionally, the study focuses on the ‘’how” and

‘’when’’ of ESG integration without assessing its long-term financial and societal impacts, leaving questions about the effectiveness of ESG in generating tangible outcomes. An additional limitation relates to the findings of Stubbs and Higgins (2014), where participants in the interviews demonstrated interest in sustainability, potentially excluding perspectives from those who place less emphasis on it. Furthermore, the limited time frame presents a potential issue regarding the number of interviews conducted with the case firm. Incorporating additional perspectives from senior management and junior professionals would have further strengthened the analysis.

Future research could address these limitations by conducting comparative analyses across multiple firms of varying sizes, investment profiles, and geographies. Such studies could explore whether the patterns identified here hold true in other contexts or are unique to the case firm. Additionally, the development and evaluation of practical tools for quantifying ESG impacts and integrating them into financial models would be valuable. Standardized metrics and frameworks could enhance comparability and provide a clearer link between ESG performance and financial outcomes. Finally, examining the long-term impacts of ESG integration on both portfolio company performance and societal outcomes would provide a more comprehensive understanding of its effectiveness.

In conclusion, this thesis sheds light on the practical realities of ESG integration in PE, emphasizing the role of internal champions, organizational culture, and systematic processes. By demonstrating how a generalist PE firm successfully navigates the complexities of ESG, the study contributes to both academic literature and industry practices. It challenges the notion that advanced ESG practices are the domain of large, impact-focused firms and highlights the potential for smaller, generalist firms to lead in sustainable investing. As ESG continues to gain prominence, this research offers a foundation for future exploration and a practical roadmap for firms seeking to align financial and sustainability goals.

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8. Appendix

8.1 List of Interviews

Overview of respondents[1]

No.	Respondent*	Company**	Position***
1	Lisa	Firm A	Sustainability Manager

[1] * = Fictive names used; ** = Company names have been anonymized; *** = Official positions according to official information.

2	Erik	Firm A	Partner
3	Jacob	Firm A	Partner
4	Felix	Firm A	Associate Partner
5	Julia	Firm A	Investment Professional
6	Lucas	Firm B	ESG Manager
7	Elias	Firm C	Investment Manager
8	Leo	Firm D	Partner
9	Sofia	Firm E	Impact Director

8.2 Table of Interviews

Interviewee	Duration	Date
Lisa	61 minutes	2024-10-17
Sofia	42 minutes	2024-10-21
Felix	51 minutes	2024-10-23
Erik	57 minutes	2024-10-25
Jakob	49 minutes	2024-10-29
Lucas	30 minutes	2024-10-30
Julia	47 minutes	2024-10-31
Elias	28 minutes	2024-11-01
Leo	55 minutes	2024-11-01

8.3 Interview Guide

Questions for Senior Investment Professionals

1. **Strategic Vision and ESG Integration**
    - How would you describe your firm's long-term investment strategy?
    - In what ways have ESG considerations influenced your firm's strategic direction in recent years?
2. **ESG Impact on Investment Decisions**
    - How do you incorporate ESG factors into your analysis/decisions regarding potential investments?
    - In your experience, how influential are ESG findings on the final investment decisions?
    - How are sustainability metrics usually weighted relative to traditional financial metrics/evaluation?
    - Can you provide examples where ESG considerations significantly impacted an investment decision?
3. **ESG Policy and Implementation**
    - Does your firm have a formal ESG policy? How is it implemented across different teams?
    - How do you ensure consistency in ESG integration throughout the investment process?
4. **Industry Trends and Risks**
    - What current industry risks are most significant to you, and how do ESG factors play into these risks?
    - How do you foresee ESG considerations shaping the future of private equity investments?
5. **Stakeholder Engagement**
    - How do you engage with external stakeholders (investors, portfolio companies, regulators) on ESG matters?
    - How important is stakeholder feedback in shaping your ESG strategies?
6. **Performance Measurement and Reporting**

- How do you measure the success of ESG integration?
- Are there specific ESG metrics or KPIs that you track and report to stakeholders?

7. **Leadership Role in ESG**
    - How do you promote ESG integration within the firm?
    - What role does leadership play in fostering a culture that values ESG considerations?

Questions for Junior Investment Professionals

1. **Role and Responsibilities**
    - Can you describe your role and main responsibilities within the investment team?
    - How do ESG considerations feature in your day-to-day activities?
    - How would you define ESG and what is important in your view?
2. **ESG in Analysis and Due Diligence**
    - How do you incorporate ESG factors into your analysis of potential investments?
    - What tools or frameworks do you use to assess ESG aspects?
    - Do you somehow incorporate consideration of ESG factors in the financial models?
3. **Collaboration and Influence**
    - How do you collaborate with the sustainability team during the investment process?
    - In your experience, how influential are ESG findings on 1) your recommendation of the investment case, and 2) the final investment decision?
4. **ESG Data and Resources**
    - Do you use any proprietary ESG scoring models or checklists?
5. **Case Studies**

- Can you discuss a specific instance where ESG considerations significantly affected your analysis?
- How did integrating ESG factors alter the outcome or recommendation of that investment case?

6. **Challenges and Learning**
    - What challenges have you faced in integrating ESG factors into the investment case analysis and traditional financial models?
    - How have you addressed any knowledge gaps related to ESG within your role?
7. **Personal Perspective on Sustainability**
    - What does sustainability mean to you in the context of private equity investing?
    - How do you see the role of ESG evolving for investment professionals like yourself?

Questions for Sustainability Team Members (e.g., Sustainability Managers)

1. **Role within the Firm**
    - Could you briefly describe your role and main responsibilities within the sustainability team?
    - How does your team contribute to the firm's overall investment process?
2. **ESG Strategy Development**
    - How is the firm's ESG strategy formulated, and what are the key factors influencing it?
    - Are there any sustainability frameworks or standards that guide your work (e.g., UN PRI, SASB, GRI)?
3. **Integration with Investment Teams**
    - How do you collaborate with investment professionals during the pre-acquisition phase (e.g investment screening, deal identification, deal evaluation and due diligence, up until the investment decision)
    - At what stages are you involved in the investment lifecycle?

4. **Assessment Tools and Methodologies**
    - What tools or methodologies do you use to assess ESG risks and opportunities?
    - How (and if) do you quantify ESG factors, and how are these metrics communicated to investment teams?
5. **Influence on Decision-Making**
    - Can you provide examples where your team's ESG insights significantly influenced an investment decision?
    - How receptive are investment teams to ESG considerations?
6. **Challenges and Successes**
    - What are the main challenges you face in integrating ESG into the firm's investment processes?
7. **Future Outlook**
    - How do you anticipate ESG integration evolving within the firm and the industry?
    - What upcoming regulations or industry trends do you think will impact your work the most?

8.4 Use of Generative AI

In accordance with SSE guidelines, we used generative AI tools, specifically version 4.0 of the large language model Chat GPT, partly for inspiration and as a digital brainstorming partner during the early stages of our research, but not as a basis of analysis. This helped us explore different perspectives and refine our ideas. Additionally, we occasionally used AI to check for grammatical errors, spelling, sentence structure, and flow to improve clarity and readability. However, we have not directly included any AI-generated content into the thesis. All inspiration and advice gathered via AI tools were critically reviewed and adapted to ensure full ownership. To mitigate the risk of incorrect information, we refrained from using AI-generated content, ensuring the thesis reflects our independent academic research efforts. This process provided insights into how generative AI can serve as a supportive tool for improving creativity and efficiency while maintaining ethical and academic integrity.