Socially responsible investments and shareholder engagement in the Swedish pension fund system

Adam Skol
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Abstract:
In recent years, institutional shareholders have more frequently engaged themselves in dialogue with corporations on corporate social and environmental factors (ESG factors) through a new investment strategy often referred to as socially responsible investments. When attempting to influence corporations ESG factors, the institutional shareholders often engage in dialogue with the corporation. The Swedish public pension funds work with socially responsible investments and shareholder engagement are based on their mandate to serve the Swedish people and to manage their retirement capital in a desirable way. Since 2019, the AP funds are also legally obliged by the AP Funds Act (2000:192) to contribute to sustainable development by their investments. The findings of this thesis suggest that shareholders can positively influence the social and environmental performance of a corporation. It suggests that shareholder engagement dialogue is an effective influence instrument to generate positive social and environmental outcomes, with an open and constructive dialogue between the shareholder and the corporation. In order to build a successful long-term relationship between the shareholder and investee, it is important for the engager to enhance the preparation and try to stay fully informed on the matters being raised to the investee. This can be achieved by the shareholder by letting the engager focus the engagement on a manageable number of corporations and sectors and by having a dialogue with several different stakeholders throughout the network such as local union trade organisations or other NGOs.

Keywords: corporate social and environmental outcomes; influence instruments; shareholder engagement dialogue; shareholder engagement; socially responsible investments; sustainable development.

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Summary:
With the increased attention for events such as climate change, institutional shareholders have more frequently engaged themselves with corporations on social and environmental matters through a new investment strategy often referred to as socially responsible investments (SRI). When attempting to influence corporations social and environmental performance, the shareholders often engage in dialogue with the corporation, so-called shareholder engagement dialogue. As institutional shareholders are large owners in corporation and, thus, can influence their behaviour, it is important to investigate how these investors choose to utilize that power towards corporations. The Swedish public pension funds, with its substantial capital of 1 380 billion SEK, hold such an influential position.

This thesis explores the role of the Swedish pension funds and the influence instruments being used when the funds engage with corporations on social and environmental matters. In addition, this thesis investigates the corporate environmental and social outcomes that can be linked to the shareholder engagement dialogue between the pension fund and the corporations, and how this dialogue can be done more effectively.

The research data include interviews with five employees from the AP funds (AP1, AP4 and AP7) and one researcher in the field. The AP funds work with socially responsible investments and shareholder engagement are based on their mandate to serve the Swedish people and to manage their retirement capital in a desirable way. Since 2019, the AP funds are also legally obliged by the AP Funds Act (2000:192) to contribute to sustainable development by their investments.

The findings of this thesis suggest that institutional shareholders can have a positive influence on the social and environmental performance of a corporation. Furthermore, it suggests that shareholder engagement dialogue is an efficient influence instrument to generate positive social and environmental outcomes, with an open and constructive dialogue between the shareholder and the corporation. The findings also suggest that the formation of coalitions between institutional shareholders via collaborative networks and ESG service providers already strengthens the shareholder engagement dialogue. When it comes to the efficiency of the engagement, the relationship between the engager (shareholder) and investee is identified as very important. It is also the long-term relation between the two which in most cases determines the influence instruments exercised by the shareholder. In order to build a successful long-term relationship between the shareholder and investee, it is important for the engager to enhance the preparation and try to stay fully informed on the matters being raised to the investee. This can be achieved by the shareholder by letting the engager focus the engagement on a manageable number of corporations and sectors and by having a dialogue with several different stakeholders throughout the network such as local union trade organisations or other NGOs.

Keywords: corporate social and environmental outcomes; influence instruments; shareholder engagement dialogue; shareholder engagement; socially responsible investments; sustainable development.

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Definitions of abbreviations and key concepts

**Annual General Meeting**

The annual general meeting (AGM) is a mandatory annual gathering of a corporation’s executives, directors and interested shareholders, in which the corporation present its previous year financial results and activities. Resolutions are submitted for voting, shareholders can choose to raise current issues (Black et al., 2017).

**Environment, Social and Governance**

Environment, social and governance (ESG) refers to the three central factors in measuring sustainability and ethical impact of an investment in a corporation. The environmental (E) criteria focus on how a company performs as a steward of the natural environment. Social (S) criteria examine how a company manages relationships with its employees, suppliers, customers in the society where it operates. Governance criteria (G) deals with company’s leadership, executive pay and shareholder rights.

**Fund**

A fund is defined as resources managed on behalf of a client by a financial institution (Law, 2016).

**Pension fund**

A pension fund is defined as a fund from which pensions are paid out. Pension funds are accumulated from pooled contributions from employers, employees or both. The funds are then invested to generate income and accrue capital gains which provides retirement income (Black et al., 2017).
**Investee**

A corporation or entity in which an investor makes a direct investment (Black *et al.* 2017).

**Institutional shareholder**

Institutional shareholder manages a substantial pool of money and invests those in different asset classes. Typical institutional investors are pension funds, banks and hedge funds (Black *et al.*, 2017).

**Stakeholder**

The term “stakeholder” was first used in a conference held at the Stanford Research institute in 1963 to refer to all groups on which an organization is depended on for its survival (Bonafous-Boucher & Dahl Rendtorff, 2016:1). Since then, several both narrower and broader definitions of the term “stakeholder” has been introduced. Today there is not much disagreement of what kind of entity a stakeholder can be. Individuals, groups, organizations, institutions, society and even the natural environment qualify as an actual or potential stakeholder (Mitchell *et al.*, 1997:855).

**Sustainable development**

In 1987, the World Commission of Environment and Development (WCED) led by Gro Brundtland defined the term sustainable development as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (WCED, 1987:247). The Brundtland definition of sustainable development is considered as the most recognized globally and describes development as being sustainable if it meets not only current needs but also the needs of future generations (Staub-Bisang, 2012:15).
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1. Introduction

This chapter begins with an introduction to the field of socially responsible investments and shareholder engagement. Thereafter, the chapter continues to specify the problem that is being studied, the aim, a formulation of the research questions, delimitations and ends with an outline of the thesis.

1.1 Corporate social responsibility and socially responsible investments

Corporations are inherently connected to the wider society through their operations and activities, for instance through their use of natural resources, the pollutants they emit, the people they employ and the welfare to which they contribute (Sjöström, 2008:141). Therefore, it is no longer sufficient for corporations to solely be financially profitable; they also need to satisfy other stakeholders (Ibid.). Due to the increased centrality of corporations in our society, and their influence on various societal aspects, stakeholders in the surrounding environment have expectations on corporations to respect shared principles and internationally agreed conventions. Corporations’ coherence with social- and environmental responsibility have been defined in several international declarations, regulations and norms such as the UN Global Compact and OECD Guidelines for Multinational Enterprises (Allen et al., 2012:5).

In recent decades, with the increased attention on challenges such as climate change and its effects on the planet, the expectations on corporations to act on social and environmental issues have increased further (Baker, 2016). The consequences of events such as climate change are not only a concern for corporations, but also for society and the world economy at large. As highlighted in the report by the World Economic Forum in 2018 (p. 11) climate change is one of the biggest risks that the global economy is facing.

A key stakeholder and significant owner of corporations are the shareholders (Sandberg, 2013:436). Shareholders can play a crucial role when it comes to incentivize or force corporations to commit further resources to corporate social responsibility, increase transparency or change of policies and practices (Ibid.). The most powerful and influential actors in the financial market are considered to be large institutional shareholders (i.e. pension funds, mutual funds, hedge funds) due to their enormous pools of money invested in a wide array of shares and bonds on the stock markets (Schäfer & von Arx, 2014:2317). In 2016, the pension funds in the OECD countries collectively held assets worth more than US$38 trillion (OECD, 2017:3).

Over the past few decades there has been growing interest for a new investment strategy, often referred to as socially responsible investments (SRI) or sustainable investments, that has grown rapidly in the financial sector (Ivanova, 2017:2; Wagemans et al. 2013:235). SRI is an investment strategy that aims to both bring financial return and address non-financial risk by integrating environmental, social and governance (ESG) factors into investment decision making (Renneboog et al., 2008:1723). There are several SRI influence instruments that are being applied by investors (e.g. positive- or negative screening, norm-based research, impact investing or shareholder engagement). This project intends to mainly focus on shareholder engagement dialogue as a strategy in socially responsible investments.

Shareholder engagement is commonly used as a strategy in socially responsible investments with the purpose of influencing corporations in a desirable way (Hebb & Gifford, 2011:83; Ivanova, 2017:2). Sjöström (2008:142) and Goranova (2014:1232) defines shareholder engagement as interventions taken by shareholders with the explicit intention of positively influencing corporations. Shareholder engagement has been studied in corporate governance literature for
more than a century, with the purpose to seek financial gains by addressing the agency problem between stakeholders and managers (Cundill et al., 2017:1; Goranova & Ryan, 2014:1231; Denes et al., 2017:413). Comparatively recently shareholder engagement has also begun to prioritize corporations environmental and social performance (Goranova & Ryan, 2014). Further on in this thesis, shareholder engagement will refer to this new type of ‘social and environmental’ shareholder engagement that have emerged.

1.2 Problem background

Stakeholders are increasingly demanding from the corporations to perform well on social and environmental indicators. In addition to this, numerous principles and regulations have been enacted around the world to clarify the environmental and social responsibilities of corporations (Shrivastava & Addas, 2014:21). The increasing demand for ethical coherence is not only affecting corporations but also the shareholders.

The interest among financial institutions for socially responsible investments has increased tremendously over the last years, and so has the development in the field. In 2006, the United Nations introduced the Ten Principles of the UN Global Compact (United Nations, 2018). The same year, the United Nations launched the international network Principles for Responsible Investment (PRI) which contain commitments to active ownership on ESG issues. One decade later, in 2016, PRI had over 1400 signatories from shareholders representing more than US$59 trillion of assets (Internet, PRI, 2017). Between 2016 and 2018, total assets committed to socially responsible investment strategies grew by 11% from US$12.3 trillion to reach US$14.1 trillion, which is a significant increase from the US$4 trillion at the time of the PRI’s launch in 2006 (Young & Gates, 2015:10); Global Sustainable Investment Alliance, 2018:4). The vast development of SRI has primarily brought an increased involvement of large institutional investors, such as pension funds, hedge funds and mutual funds (Miralles-quirós & Miralles-quirós, 2018:339).

Critical views claim that pension funds are specifically qualified to take on the role of monitoring firms operating in different industrial environments, and therefore should concentrate only on their role as fiduciaries for their clientele of active contributors and retirees (Schäfer & von Arx, 2014:2318). While other literature suggests that socially driven investors have a very different ideology to the conventional market logic, where they engage on principles rather than on economic basis to generate long-term financial returns (Goodman et al., 2014:194). Others claim that since most pension funds are universal owners of capital, they recognize that the externalities produced by one investee may impact value in another investee (Allen et al., 2012:5). In many cases, SRI investors targets corporations’ that has or risk to violate against existing international norms, principles or standards (Goodman et al., 2014:194). Norms are shared ideas about what is appropriate behaviour for actors with a given identity. Recently, norms have gained an increasingly important role in the corporate world (Sjöström, 2010:177).

In Sweden, the SRI market is considered to be mature with institutions and shareholders in general being very sensitive to social and environmental issues (Leite, 2018:116; Eurosif, 2016). SRI practices are mainly driven bottom-up by the AP-funds and other institutional investors (Eurosif, 2016). In accordance with Swedish legislation (2000:192), the AP-funds, are required to invest long-term and generate high return (The Swedish Parliament, 2018). The AP-funds also have requirements to include ethical and environmental considerations into their investment decisions, however, it should not compromise or interfere with the overall objective of attaining high return (Ethical Council, 2018).
Previous research indicates that funds align their investment choices with the financial and non-financial interests of their beneficiaries when deciding whether to incorporate CSR into their equity allocations (Hoepner & Schopohl, 2019). The evidence on the broad corporate and societal impact of SRI is mixed. Some authors find that when accounting for well-documented market imperfections, SRI does indeed ‘make a difference’ to society (Loche & Hebb, 2014). While some other authors concluded that it is the reputational aspects of ESG that can affect firms’ business risk, profitability and competitive advantage but even if the financial markets increasingly integrate ESG criteria into investment decisions, there is no real shift toward more sustainable business practices (Dawkins, 2018, 467). Similarity, Aggarwal et al. (2007) concluded there is definite research on the benefits of better corporate governance but much less on the effects of a firm’s environmental or social performance.

Due to portfolio considerations, stock holdings by pension funds are largely dispersed. Therefore, it cannot be expected that many interventions by pension funds in corporate governance will be accomplishable without the pension funds forming coalitions with other shareholders (Schäfer & von Arx, 2014).

1.3 Problem formulation

Given pension funds commitments to act on corporate social and environmental issues, combined with their efforts of changing corporate attitudes and values with their dominant position in the world’s financial markets (Sandberg, 2013:436), it would be insightful to explore the outcomes of their work on influencing corporate social and environmental behaviours and how shareholders could possibly be more efficient in generating those.

In line with the rapid growth and mainstreaming of socially responsive investments (SRI) as an investment strategy, academic literature in the field has increased tremendously (Wagemans et al., 2012:235). Some literature suggests that the development of SRI assets has transformed the original goal of “doing good” into a quest of profitability (Revelli, 2017:711). Other studies claim that SRI has transitioned into a social movement that has changed the balance of power in modern corporations, with the aim to nourish a stable economy with acceptable rates of return while at the same time addressing stakeholders’ social and environmental factors in order to preserve an habitable planet (Goranova, 2014; Lilliehöök & Margolin, 2017).

In comparison to the mature field of financially motivated shareholder engagement (see Denes et al., 2017), there is still limited research on its non-financial counterpart (Cundill et al., 2017:3). Previous literature has highlighted the need for more knowledge on the actual effects and outcomes of social shareholder engagement on corporations environmental and social performance (Sjöström, 2008:142; Louche & Hebb, 2014; Cundill et al., 2017:14; Leite et al., 2018:109). Some literature suggests that socially driven investors have a very different ideology to the conventional market logic, where they engage because of principles rather than of economic basis (Goodman et al., 2014:194).

When it comes to pension funds or any institutional investor, they have a fiduciary duty¹ towards their clients. The quest to satisfy every client, through maximizing long- and short-term shareholder value could possibly lead to a conflict of interest when it comes to shaping socially responsible corporate attitudes and values. In previous literature, the fiduciary duty is accused of ruling out the possibilities for pension funds to consider social and environmental issues in their investments (Jansson et al., 2014:213). A counterargument to this could be that beneficiaries’ best interest can be interpreted more broadly to go beyond financial performance and include

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¹ The fiduciary duty is defined by a relationship in which one party (the fiduciary) is bound to act in interest and benefit of another party (the beneficiary) (Nagell, 2011:80).
environmental and social aspects (Ibid.). Pension funds fiduciary duty alongside with their pursuit for sustainability in their investments could possibly result in a conflict of interest (Amalric, 2006:440). Some literature finds evidence of a clear priority of financial performance over responsibility in pension funds but suggests that pension funds that consider sustainability in their strategy can bring balance between financial gains and responsibility (Sievänen et al., 2016:912).

There are numerous studies on the financial performance of socially responsible investments, in which some authors claim that SRI funds outperform conventional funds (see Xiao et al., 2017) while other authors find the weighted average effect size is not significantly different from zero, suggesting that SRI financial performance is not different from conventional funds (see Chang-Zo, 2019). However, the Portfolio theory tells us that the optimal portfolio for any investor is likely to be diversified across the securities of many firms (Fama, 1980:291). This may not be the case for a socially driven investor that must exclude securities simply because the corporation does not perform well in terms of social and environmental performances.

Until now, there is very little research carried out on the actual corporate social and environmental outcomes of SRI and shareholder engagement (Sjöström, 2018; Cundill et al., 2018). Therefore, it would be of interest to seek evidence of the outcomes of the shareholder engagement with an emphasis on the dialogue, but also how it can be executed more effectively in generating such. It would also be insightful to investigate the role of pension funds and their influence instruments used in their work with SRI.

1.4 Aim and research questions

The aim of this project is to investigate the role of the pension funds and the influence instruments used when engaging with corporations on social and environmental matters. Furthermore, the aim is also to investigate the corporate environmental and social outcomes directed to the shareholder engagement dialogue, and how the shareholder engagement dialogue can done be more effectively in generating corporate social and environmental outcomes.

To achieve the aim of this project, the following research questions have been formulated:

- What role do the AP funds have and what influence instruments are being exercised to influence corporations?
- What are the corporate social and environmental outcomes of the shareholder engagement dialogue?
- How can the shareholder engagement dialogue be more effective in generating corporate social and environmental outcomes?
1.5 Outline of the project

An illustration of the chapters in this project is presented in the figure below (Figure 1). The outline provides an overview of the project and how it is structured and how the chapters are connected. Furthermore, a brief introduction to every chapter will be presented accordingly.

Figure 1. Outline of the project.

In Chapter 1, the background of the researched field is introduced. It provides a formulation of the problem, delimitations, posed research questions and how the project aims to address the problem.

In Chapter 2, the method, research design and the theoretical framework is presented. It advocates the choice of theories and provide the research with directions to follow.

In Chapter 3, based on the theoretical framework, the theoretical review is presented. It provides the reader with a clear view of the theoretical concepts used to analyse the data collected during the project.

In Chapter 4 and 5, the empirical background and results are presented, which are then analysed in Chapter 6 with support of the chosen theories and the conceptual framework.

In Chapter 7, a discussion of the results in Chapter 6 is provided but also how the results of this project relate to other research studies.

In Chapter 8, the aim and the key findings are summarized, as well as the practical implications and suggestions for future research.
2. Method

This chapter details the choices and methods taken to investigate the research questions and the procedures applied to understand the problem. It presents how the research was conducted in terms of the research approach and design, data collection, coding and analysis. In the end of this chapter, the methodological limitations are presented together with a discussion of the research quality.

2.1 Research approach and design

This project deals with a rather unexplored field of social- and environmental shareholder engagement and how it can be done more efficiently, which is exploratory due to its complex nature. When researching social phenomena, such as this project, a dilemma that is often confronting the researcher is the attempt to establish a link between theory and research (Awuzie & McDermott, 2017:356). In order to do so, a flexible qualitative design has been applied for the conceptual framework of this project with an abductive approach for enabling a better understanding of the processes and relationships between actors in a systematic manner (Ibid.).

2.1.1 Qualitative case study

As the research method, a qualitative case study was applied for this project. The rationale to the usage of a qualitative approach over a quantitative approach for this study, mainly lies behind the fact that shareholder engagement usually occurs behind closed doors and limited information is disclosed. A qualitative case study is an empirical method that “investigates a contemporary phenomenon in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident” (Yin, 2018:5). Furthermore, the case study research approach allows the researcher to focus in-depth on a case and to retain a holistic and real-world perspective (Ibid.). The most important aspect of qualitative case study research is to explain the presumed causal links in real-world interventions that are too complex to be described in surveys or experiments (Yin, 2018:18). It is also important to describe the real-world context in which it occurred and illustrate certain topics within an evaluation (Ibid.).

2.1.2 Choice of case and unit of analysis

The unit of analysis in this project are the Swedish national pension funds; AP1, AP4 and AP7. All three of them were chosen to provide a comprehensive and in-depth understanding of the pension funds work and approaches to shareholder engagement on social and environmental issues. More precisely, the unit of analysis in this paper was employees working with a variety of positions related to socially responsible investments at the AP-funds. In addition to this, one interview was held with a researcher who is studying the field of socially responsible investments and shareholder engagement. The interview with the researcher enabled a validation of the empirical data through cross verification from an independent source, which is commonly referred to as data triangulation (Modell, 2005:232, 237).
2.2 Delimitations

In the following subsection of the chapter, the methodical, empirical and theoretical delimitations to the project are presented.

2.2.1 Methodical limitations

There are some limitations associated with qualitative research, features that cannot be fully neglected by the researcher but need to be addressed for the reader. Since the results are based on discovering how human beings understand and interpret the social world, the results of a qualitative study can differ each time a study is being repeated based on the respondent’s own experiences and interpretations. This implication provides qualitative studies study with the absence of quantification. Ideally, qualitative research should seek for a set of features that are shared by all cases it represents, that are not found together in other kinds of research (Hammersley, 2013:2). To minimize the interference of the features mentioned, not one, but three cases in the chosen field were studied in this project. In addition, one interview was held with an independent researcher in the field.

2.2.2 Empirical and theoretical limitations

Three Swedish national pension funds have been chosen to achieve the aim and to answer the research questions. Due to the fact that all of the chosen pension funds are located in Sweden, the limited number of observations may restrict the possibility to draw any universal conclusion of the study. Another delimitation to this study is the missing perspective of the investee and their experiences of the shareholder engagement dialogue with shareholders. Even if is not vital for answering the research questions, it truly would have been valuable and interesting to gain corporations’ opinion and experiences on the dialogue they have with shareholders regarding social and environmental concerns. An obvious but also noteworthy delimitation relates to the possible bias of the researcher, as the literature review has been carried out by one single researcher with subjective choices to exclude or include articles. Research bias is based on every researcher’s own values and interpretation of the social world, and it can impact research outputs in both qualitative and quantitative research (Galdas, 2017:1-2). In order to limit the research bias in this project, verification by several data sources were conduct. The findings of this projects were also reviewed and confirmed with peers.

2.3 Data collection

This project is based on information acquired from both primary- and secondary data sources. The secondary data was available through sustainability reports, annual reports, corporate webpage, publicly available information, newspaper articles, books and journals. The qualitative information, or the primary data, was available through semi-structured interviews with a broad range of relevant actors related to the engagement practices of Swedish pension funds.

2.3.1 Secondary data: Literature review

As the first step in this project, a literature review was conducted on the following subjects: shareholder engagement, socially responsible investments, ESG, influence strategies and pension funds. A literature review is a useful method when one wants to get an overview of what has been published on a certain subject or field (Robson & McCartan: 2016:52). A review of the existing literature allows the author to identify general patterns from a variety of research
and possible research gaps (Ibid.). For this paper, the literature review provided a fundamental starting point in the collection of secondary data.

When conducting the literature search, the Uppsala University (UU) Library online search instrument was used between February 2018 to May 2019. The UU Library online search instrument provides a comprehensive access point to a number of literature databases i.e. JSTOR, EconLit and Taylor & Francis Online. These databases provide content of several high impact academic journals relevant to this paper, including Journal of Sustainable Finance and Investment, Journal of Business Ethics and Journal of Corporate Finance. One of the most frequently used research papers in this project was however not obtainable through the UU Library online search instrument and was asked for and generously received by the authors through ResearchGate.

The search words frequently used in the literature review were; *socially responsible investments, shareholder engagement, shareholder engagement dialogue, shareholder influence strategies, influence strategies*

<table>
<thead>
<tr>
<th>Journal name</th>
<th>Number of articles</th>
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<tbody>
<tr>
<td>Journal of Business Ethics</td>
<td>14</td>
</tr>
<tr>
<td>Journal of Sustainable Finance &amp; Investment</td>
<td>4</td>
</tr>
<tr>
<td>Journal of Corporate Finance</td>
<td>2</td>
</tr>
<tr>
<td>Corporate Governance: An International Review</td>
<td>2</td>
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*Table 1. An overview of the chosen journals and number of references.*

The table above provides an overview of the total number of journals and references used for the project, in total data was collected from 47 different journals (books not included).

An in-depth review of the three chosen AP-funds was conducted by analysing publicly available information such as newspaper articles, annual- and sustainability reports from 2016 to 2018 and investment policies. In addition to this, information on the Ethical Council was analysed. Ethical Council is a joint effort by AP1, AP2, AP3 and AP4 to coordinate their efforts on environmental and ethical issues (Ethical Council, 2018).

### 2.3.2 Primary data collection

For the purpose of this paper, semi-structured interviews were used for the collection of primary data. Semi-structured interviews allow the researcher to ask open-ended questions and potential
issues arising from the respondent lead to new questions or the direction of inquiry (Lapadat & Lindsay, 1999:64).

In the preparations prior to the interviews, a comprehensive document review was conducted on the published information available (i.e. annual report, sustainability report and publicly available information on the website) of each pension fund. With the allowance of the respondent the interviews were also audiotaped, which was accepted by all the respondents. As recommended by Yin (2018:24) the transcripts and interpretations were later returned to the source of information (the respondents) for the opportunity to review, edit and validate the material. The transcription consisted of 22,673 transcribed words on a total of 46 pages. The interviews were held in Swedish and later translated into English.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Interview date</th>
<th>Interview setting</th>
<th>Validation requested</th>
<th>Validation received</th>
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<tr>
<td>Tina Rönnholm</td>
<td>Portfolio Manager External Asset Management at AP1</td>
<td>2018-05-04</td>
<td>In-person interview</td>
<td>2018-05-07</td>
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<td>Majdi Chammas</td>
<td>Head of External Asset Management at AP1</td>
<td>2018-05-04</td>
<td>In-person interview</td>
<td>2018-05-07</td>
<td>2018-05-07</td>
</tr>
<tr>
<td>Arne Lööw</td>
<td>Head of Corporate Governance at AP4 and member of the Ethical Council</td>
<td>2018-05-08</td>
<td>In-person interview</td>
<td>2018-05-15</td>
<td>2018-05-21</td>
</tr>
<tr>
<td>Pia Axelsson</td>
<td>Head of Corporate Governance and Sustainability at AP4 and Chair of the Ethical Council</td>
<td>2018-05-08</td>
<td>In-person interview</td>
<td>2018-05-15</td>
<td>2018-05-21</td>
</tr>
<tr>
<td>Johan Florén</td>
<td>Head of ESG Integration and Communication at AP7</td>
<td>2018-04-18</td>
<td>In-person interview</td>
<td>2018-04-19</td>
<td>2018-05-02</td>
</tr>
</tbody>
</table>

Table 2. Interviews in the case study.
Table 2 provides a short description of the respondents participating in the interviews. The interviews were conducted in-person with five employees of the AP-funds and one researcher in April 2018 to May 2018 (see Table 2). All interviews lasted for between 40 to 60 minutes, contemporaneous notes were taken and written down immediately after each interview.

2.4 Research quality

Qualitative research, origins from a various disciplines, paradigms and epistemologies embraces multiple standards of quality, known as validity, reliability, credibility or trustworthiness (Morrow: 2005:250). Ensuring that the study has validity and reliability is an important aspect of case study research as it opens opportunities for the research. A high degree of validity and reliability does not only provide confidence in the data collected but more significantly, trust in the application and use of the results to managerial decision-making (Riege, 2003: 84). In order to assure quality in research, Yin (2009:40) details four standards of quality or indicators; construct validity, internal validity, external validity and reliability. In the table below (see Table 3) these four quality indicators are used together with a set of techniques introduced by Riege (2003) along with examples of how they were applied in this project.

<table>
<thead>
<tr>
<th>Case study design tests</th>
<th>Examples of relevant techniques</th>
<th>Application to this project</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Construct validity</strong> is how well the evaluation designs are suited to the research issue (Nk wake, 2015:74)</td>
<td>Use multiple sources of evidence</td>
<td>Triangulation via diversity of respondents, perspectives and data sources</td>
</tr>
<tr>
<td></td>
<td>Third-party review of evidence</td>
<td>Transcripts and follow-ups sent to respondents; validation through email</td>
</tr>
<tr>
<td></td>
<td>Establishment of a chain of evidence in the data collection phase</td>
<td>Interviews were transcribed and secondary data was cross checked for particular sources of evidence</td>
</tr>
<tr>
<td><strong>Internal validity</strong> or credibility is to which extent a piece of evidence supports a claim about cause and effect within the context of a particular study (Nk wake, 2015:100)</td>
<td>Use diagrams and illustrations to assist explanation in the data analysis</td>
<td>Done</td>
</tr>
<tr>
<td></td>
<td>Ensure findings and concepts are systematically related</td>
<td>A consistent framework was applied to all sources of data</td>
</tr>
<tr>
<td><strong>External validity</strong> or transferability is to what extent the cause relationship between intervention and outcome holds in generalisation (Nk wake, 2015:101)</td>
<td>Define scope and boundaries of reasonable analytical generalisation for the research</td>
<td>Done in chapter 8.2</td>
</tr>
<tr>
<td></td>
<td>Comparison of evidence with extant literature in the data analysis</td>
<td>Abductive approach used, comparison in the data analysis</td>
</tr>
<tr>
<td><strong>Reliability</strong> or dependability is the consistency of the</td>
<td>Give full account of theories and ideas</td>
<td>Done in chapter 2 and theoretical framework</td>
</tr>
<tr>
<td></td>
<td>Record data mechanically</td>
<td>All interviews were taped with recording device</td>
</tr>
</tbody>
</table>
In order to ensure validity, this project accrued data from a variety of sources, ranging from interviews with a broad range of relevant actors and secondary data. All the transcripts and interpretations from the interviews were returned to the source of information by email for the opportunity to review, edit and validate the material. Internal validity or credibility was established by the illustrations and diagrams provided in the data analysis and by the usage of a consistent framework to all sources of data. External validity or transferability is facilitated in the research design phase and by ensuring that the data collected is compared to relevant existing literature. Finally, the reliability of this project is ensured by various techniques; give full account of theories and ideas, peer review, involve multiple researchers, assure coherence between research issue and the study design, parallelism of findings across multiple data sources. All these techniques were applied in different stages when conducting this project.

2.5 Ethical considerations

There are many ethical considerations to consider when carrying out real world research involving individuals (Robson & McCartan, 2016:205). Ethics refers to rules of conduct or set of principles, that should be considered early in the research for the protection of its participants (Robson & McCartan, 2016:65). A central concept in the protection of individuals participating in research is informed consent (Kahn & Mastroianni, 2009:3). The objective of the practice of informed consent is to allow individuals to decide for themselves whether to agree to participate in a research project. Only individuals who are sufficiently informed and make a voluntary decision can give an informed consent (Kahn & Mastroianni, 2009:5). With regards to the interviews in this project, all the respondents who participated gave prior consent before participating in it. When the project nearly was finalized and submitted, all respondents received the project to give formal consent. Another important aspect of this project was the protection of personal data of the respondents. Conclusively, there could also be an ethically dimension to the field this project aims to study; the environmental- and social outcomes of shareholder engagement. The main reason for this being that the AP funds is state-owned agencies and because of the fiduciary duty the funds possess to a large proportion of the Swedish population.

<table>
<thead>
<tr>
<th>analytical procedures, accounting for personal and research method biases that may influence the findings (Noble &amp; Smith, 2015:34)</th>
<th>Assure coherence between research issues and the study design</th>
<th>Done in chapter 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use multiple researchers</td>
<td>Done throughout the project</td>
<td></td>
</tr>
<tr>
<td>Use peer review</td>
<td>Proposal, seminar with peers, opposition</td>
<td></td>
</tr>
<tr>
<td>Assure parallelism of findings across multiple data sources</td>
<td>Identical framework/logic used in all interviews and documents</td>
<td></td>
</tr>
</tbody>
</table>

Table 3. Test and techniques for establishing validity and reliability in qualitative research (Riege, 2003:78-80, adapted from Vlasov & Mark-Herbert, 2016).
3. Theoretical framework

This chapter contains the structure to hold and support the theoretical review of this project. It starts with an introduction to the social network analysis and the instruments of influence used by pension funds. The chapter continues by introducing in more detail the stakeholder salience theory and the stakeholder theory and its application to this project.

3.1 Social network analysis

As this study is exploratory, a basic application of the social network analysis will be used to explore and map the relations between the stakeholders in the shareholder engagement process. The social network analysis is frequently used in various social and behaviour studies to better understand the patterns of communication in a given social network (Phillips & Phillips, 1998:330). It can also be defined as “the social network approach is grounded in the intuitive notion that the patterning of social ties in which actors are embedded has important consequences for those actors. Network analysts, then, seek to uncover various kinds of patterns. And then try to determine the conditions under which those patterns arise and to discover their consequences” (Freeman, 2004:73). In comparison with traditional social analysis, the social network analysis has the advantage of being able to analyse entire networks such as organisations and its behaviour (McCulloh, 2013:18). Moreover, traditional social analysis tends to focus on individual attributes rather on the relationships between individuals (Ibid.).

When conducting a social network analysis, the network should always be a collection of points linked with each other through some type of association (McCulloh, 2013:4). Furthermore, the nodes and links that are building up the network must always be connected by a flow or relationship (McCulloh, 2013:6). Nodes can most easily be defined as actors or individuals inside the social network. As an example of a social network, consider the members of an organisation, even though all are connected in the overall network, not all individuals are connected to the social network with the same degree of closeness. Social relations can be thought of as dyadic attributes, which are characterised by two nodes. While mainstream social science attributes such as income, age and gender are characterized by one node.

There are a variety of applications and models to the social network analysis, the so-called triad-network model have been selected for this project. According to Mol (1995:64) the triad-network encompasses more than just analytical perspectives, it constitutes a combination of specific analytical perspective, distinctive institutional arrangements with the numbers of interacting actors. In the triad network model, there are three network perspectives; economic-, policy- and societal network. The economic network focus on economic interactions via economic rules and resources between economic agents. Within the policy network, the interaction between institutions involving state organizations from primarily a political-administrative perspective. The societal network aims to identify relationships between the economic sector and civil society associated with the real world, both directly and indirectly via state-agencies (Ibid.).

As for pension funds, they are connected to stakeholders with different actors or interests that can be categorised into three subnetworks; the economic network, policy network and societal network. The investee is part of the economic network and is directly linked to economic aspects of the pension funds financial performance. The communication between the investee and pension funds often occur between the representative of the sustainability- or investor relation department or even the chief executive officer and the asset manager of the pension fund (Wagemans et al., 2018:308). The policy network is made up of the legislative framework and policies that are regulating the pension fund. In the societal network, media, NGOs and
other actors in society could raise concerns to the pension funds linked to social and environmental aspects but also economic.

3.2 Shareholder engagement and the influence instruments used by pension funds

Shareholder engagement, or corporate engagement, is commonly used as a strategy by socially responsible investors with the objective of encouraging and influencing ethical corporate behaviour (Hebb & Gifford, 2011:83; Ivanova, 2017:2; Dawkins, 2018:465). Sjöström (2008:142) and Goranova (2014:1232) defines shareholder engagement as “interventions taken by shareholders with the explicit intention of positively influencing corporations”. Shareholder engagement has been studied in corporate governance literature for more than a century, with the purpose to seek financial gains by addressing the agency problem between stakeholders and managers (Cundill et al., 2017:1; Goranova & Ryan, 2014:1231; Denes et al., 2017:413). Comparatively recently shareholder engagement also begun to prioritize corporations environmental and social performance (Goranova & Ryan, 2014). In this paper, the perspectives on shareholder engagement will refer to this new type of social and environmental shareholder engagement that have emerged.

There are five main type of instruments or interventions shareholders used in order to exercise their influence on corporations: engagement via dialogue, voting, exclusion, legal proceedings or threats of divestment. Shareholders can engage via their voice in dialogue with the corporation, use an exclusionary approach or norm-based approach to identify desirable investees, extend their right as shareholders and vote or file resolutions for the corporation’s annual general meeting or by selling their stake in the corporation and thereby exiting the investment. The four instruments of shareholder engagement are interlinked and can be used together. In the chapters below, a more detailed description of each instrument to exercise influence on investees is presented.

3.2.1 Threats of divestment

Shareholders can adopt either an active or passive approach to shareholder engagement (Uche et al., 2016:680). Threats of divestment is considered a passive approach, were the shareholder may not even inform the corporation about their concern before selling their stake. The threat or actuality of divestment is a statement about expectations or priorities. If share prices of a corporation show a downward trajectory, most likely the industry will react and change rather than disappear and shareholders can reinvest (Dawkins, 2018:472). In recent years, divestment campaigns have been launched by NGOs and others to urge investors to sell their stakes in corporations that supply fossil fuels (Trinks et al., 2018:740). The aim for those campaigns has been to build support for legislation and technology that reduces emissions of Greenhouse Gases by cutting down financial support for and addressing the moral legitimacy of fossil fuel production (Ibid.).

A criticism towards divestment as a strategy is the possibility for unintended consequences that could have negative impacts on environmental and social outcomes will exacerbate those harms. If the shareholder has a large stake in the firm, it can be hard to divest without destabilizing the corporation and the whole market as a consequence (Dawkins, 2018:472). Moreover, the
Modern portfolio theory (Markowitz, 1952) suggests that constraining an investment portfolio would reduce opportunities for diversification and thereby impair financial performance.

3.2.2 Engagement via dialogue

The shareholder engagement dialogue refers to the interaction between the shareholder and current or potential investees (Jansson & Biel, 2014:34). Engagement via dialogue is considered to be an effective instrument when it is premised upon divestment, explicit terms of divestment provide the credible threat required to make a best-of-class engagement an effective instrument, and for shareholders whom divestment remains an option have no less leverage than those who indicate they will remain invested in the best-of-class firms (Dawkins, 2018:471). Engagement via dialogue can occur both individually by the shareholder, via service provider or through collaboration with other shareholders (PRI, 2017). The dialogue often take place via telephone, e-mail, conference or in-person meetings (Ibid.).

3.2.3 Exclusionary screening

Exclusionary screening methods are applied to avoid investments in corporations involved in activities deemed as unethical, controversial practices or with bad track records (Jansson & Biel, 2014:34). For example, shareholders using a negative screening method may choose to exclude to invest in corporations associated with weaponry, pornography or tobacco (Sievänen, 2014:310). In contradiction to exclusionary screening, an approach called positive screening is applied to identify firms considered to be ‘best in class’ in their industry when it comes to social and environmental performance (Jansson & Biel, 2014:34).

3.2.4 Norm-based screening

The norm-based screening method is applied to defining the investment decisions based on corporation’s performance on international norms related to ESG issues (PRI, 2017). International norms are shared ideas about what is appropriate behaviour for actors with a given identity (Sjöström, 2010:177). If a corporation has violated against a norm, the shareholder may choose to either engage via voice with the corporation or divest from it. In recent years, several recommendations and guidelines have been issued to assist corporations and their stakeholders in defining corporate responsibilities such as the UN Global Compact Principles, the UN Convention Against Corruption, the Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises (PRI, 2017).

3.2.5 Voting or filing shareholder proposals at annual general meetings

The annual general meeting (AGM) constitutes the most important corporate event (Jong et al., 2006:354). Strätling (2003) defines three main functions of the AGM. The first is to inform shareholders about financial results and major business decisions that have been made over the previous year. The second is to vote on proposals and to obtain shareholder’s approval or disapproval on decisions made by the board of directors. The third function is to provide a forum for discussion between directors and shareholders. In addition, the AGM also enables shareholders to hold the directors of a corporation accountable for their actions during the past fiscal year and future actions (Jong et al., 2006:353). During the AGM, there is also often time set aside for shareholders to raise question directly to the directors of the corporation. This also brings an opportunity for shareholders to express if they have any concerns or suggestions on
how the corporation can improve.

3.2.6 Legal proceedings

Legal proceedings could be considered as the last resort for many shareholders to enforce their shareholder rights (Gifford, 2010:80). The main reason could possibly be the high costs often associated with filing lawsuits (Bourveau et al., 2018:798). Regardless of the actuality of filing lawsuits towards the investee, prior research show that lawsuits or simply the threats of lawsuits brought by shareholders play an important role in reducing agency conflicts between managers and shareholders (Ibid.).

3.3 Stakeholder salience theory

The stakeholder salience theory, introduced by Mitchell, Agle and Wood (1997), was selected for the analysis of pension funds’ shareholder engagement with investee companies. The stakeholder salience model explains the extent to which stakeholder characteristics influence managerial decision making in respect to stakeholder claims (Majoch et al., 2017:725). The theory also states that managers’ perception of salience is based on the degree the stakeholder possess one, two or all three of the following attributes: power, legitimacy and urgency (Thijssens et al., 2015:874). The power attribute is defined as the stakeholder’s power to influence the corporation, the legitimacy is the stakeholder’s authority towards the corporation, the urgency is the stakeholder’s claim on the corporation (Mitchell et al.:1997:854). Mitchell (1997:873) argue that stakeholder salience is related to the degree to which the three dimensions of power, legitimacy and urgency are perceived by managers at the present. Moreover, the stakeholder salience theory seeks to identify how to increase salience, which is defined as the degree to which managers give priority to competing stakeholder claims and interests (Mitchell et al., 1997:878). Even if salience does not equal effectiveness per se, as this study seeks to study, previous studies have shown that salience plays a key role in the effectiveness of engagement (Wagemans et al., 2018:305).

In 2010, Gifford (2010) adapted and refined the stakeholder salience theory specifically to shareholder engagement. An overview of the adaptation by Gifford is provided in Table 4 and is explained in further detail below. Gifford (2010:80) reappraised the three dimensions of power, legitimacy and urgency into subcategories. Power is categorised into coercive power (by the usage of formal shareholder governance power), utilitarian power (the power to reward or punish through financial means) and normative power (expressed through actions that can affect a corporation’s reputation). Gifford identified four subcategories of legitimacy being individual legitimacy (the credibility and status of the individual engaging with the corporation), organisation legitimacy (the legitimacy of the corporation and the alignment between shareholder and investee), societal legitimacy (existence of norms or code of conduct, regulatory environment) and pragmatic legitimacy (the shareholder provides new information the corporation, has strong arguments why changes is relevant for the corporation) (Ibid:81).

Gifford subcategorised urgency into the time of sensitivity of a shareholder claim and the intensity of engagement activities (Wagemans et al., 2018:306).

<table>
<thead>
<tr>
<th>Sources of shareholder salience</th>
<th>Dimensions</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>Coercive</td>
<td>Use of shareholder rights: shareholder proposals, votes against management, board of director elections</td>
</tr>
<tr>
<td></td>
<td>Utilitarian</td>
<td>Use of economic power: divestment</td>
</tr>
<tr>
<td>Source</td>
<td>Normative</td>
<td>Use of the media and/or public statements or peer pressure, public shareholder campaigns, threats to reputation</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Legitimacy</strong></td>
<td><strong>Individual</strong></td>
<td>Credibility of the individuals: seniority, experience and expertise; ability to develop trust and collegiality</td>
</tr>
<tr>
<td></td>
<td><strong>Organisational</strong></td>
<td>Status of the engaging organisation: the degree to which a shareholder is perceived to be ‘mainstream’; perceived alignment of interests between a shareholder and the corporation; organisational alignment</td>
</tr>
<tr>
<td></td>
<td><strong>Pragmatic</strong></td>
<td>Strength of the business case: validity of the argument; evidence; extent of new information provided to the corporation; maturity of the issue</td>
</tr>
<tr>
<td></td>
<td><strong>Societal</strong></td>
<td>Strength of legitimising standards, norms and principles. Political/policy context: supportive political environment; regulatory momentum</td>
</tr>
<tr>
<td><strong>Urgency</strong></td>
<td><strong>Time sensitivity</strong></td>
<td>Deadlines, benchmarks</td>
</tr>
<tr>
<td></td>
<td><strong>Criticality</strong></td>
<td>Intensity of engagement activities: assertiveness and persistence</td>
</tr>
</tbody>
</table>

*Table 4. A summary of the stakeholder salience model by Gifford (2010), adapted from Wagemans et al., 2018:305.*

In addition to the three sources of shareholder salience mentioned above (see Table 4), Gifford (2010) identified four additional factors; size of the stake and the shareholder, coalition building, values of the managers and proximity. These four additional factors are not directly associated with power, legitimacy or urgency. However, they can still affect attributes of shareholder salience either positively or negatively (Wagemans et al., 2018:306).

### 3.3.1 Size of the stake and the shareholder

Both the size of the stake held in the investee as well as the total size of the shareholder in terms of assets under management can moderate as factors of power and legitimacy (Gifford 2010:80). In terms of power and legitimacy, pension funds are considered as the most salient stakeholder there is, some of the reason for it can be traced back to their size (Gifford: 2010:80).

### 3.3.2 Coalition building

A high proportion of the attempts by shareholders to influence corporations on environmental or social concerns arise from coalition building (Cundill *et al.*, 2017:10). Coalition building is when investors are grouped up together or with NGOs, policy makers or other stakeholders to strengthen their salience over the three criteria (Wagemans *et al.*, 2018:306). There is a lot to be earned by building coalition, a coalition can support each other to identify issues for action, disseminate information relating to these issues and propose strategies for action. In previous
research, tight coalition building has shown to have a significant effect on the success of attempts to engage on environmental- and social shareholder matters (Cundill et al., 2017:10).

3.3.3 Values of the managers: the degree of alignment

This attribute originates from the subjective attitudes or alignment between managers and shareholders and their claims (Gifford, 2010:83). In addition to having values that are aligned between shareholders and the managers, the individuals involved should have some level of understanding and knowledge of the issue in order to take it forward (Ibid.).

3.3.4 Proximity

Proximity has been defined as “the state, quality or fact of being near or next” in “space, time or order” (Khurram & Petit, 2017:489). In addition to closeness, corporations are considered of being proximate if they share the same or similar ideas, approaches or actions. Based on this, proximity is usually categorised in two – geographical and organized. Geographical proximity is about near and far, while organised proximity is the ability for the organisation to make its members interact easily with other stakeholders through rules, norms, codes, belief and cultural dimensions (Ibid.).

3.4 Stakeholder theory

The stakeholder theory was introduced by Freeman (1984) and entered in the CSR debate by suggesting that the managers of the corporations have a responsibility not simply to serve the general interests of society but rather to serve the interests of all the corporation’s stakeholders (Phillips, 2011:12). By considering all stakeholders, Freeman argues that the corporation would maximize its value creation. If a corporation successfully manages itself effectively, were “effective” can be seen as “create as much value as possible”, the corporation would also be sustainable in the long-term (Freeman et al., 2010:9). When it comes to the definition of stakeholder, there is many examples of what and who to consider as stakeholders. The broad definition is that a stakeholder is a person with an interest or concern in something, especially in a corporation (Bonafous-Boucher & Rendtorff, 2016:3).

Freeman also claim that financial economists tend to give shareholder interests a prominent position over the interests of other firm stakeholders (Freeman et al., 2010:128). The primary responsibility of asset managers is to maximize shareholder value and therefore shareholders should be given most importance in managerial decisions because they “are the only constituency of the corporation with a long-term interest in its survival” (Jensen, 1989). On the other hand, Freeman (2010:129) argues that the fallacy of this argument is that shareholders can sell their shares at any time and reinvest in another company. In contrasts, other stakeholders such as the local community or the employees could find it hard if a corporation ceases to exist (Ibid.). It is however jointly agreed that shareholders are an influential stakeholder when engaging with corporations (Freeman et al. 2010: 128; Bonafous-Boucher & Rendtorff, 2016:9).

The outcomes sought by the shareholder seeking to influence corporate social and environmental performance are as heterogeneous as the range of environmental and social concerns of potential interest. A shareholder may wish only to receive a briefing from the managers on the corporation’s social policies, or the shareholder may demand that an oil company should cease their drilling activities in an ecologically sensitive area (Cundill et al.)
Based on this, the claims the shareholder make towards the investee can either result in **symbolic** or **substantive** outcomes based on the managers actions (*Ibid.*).

### 3.4.1 Symbolic outcomes

The symbolic outcomes by a corporation is usually taken if the managers of the investee do not agree with the shareholder claims and therefore do not wish to make the changes suggested. Therefore, the managers engage in symbolic actions that appear to conform to shareholders’ desires, but do not actually result in changes to the organizational activities or performance. (*Cundill et al., 2017:4*). The symbolic actions are usually entirely decoupled from actual practises but provide a legitimizing explanation of the corporate actions. By doing this, managers may lead shareholders to believe that their demands have been met, and thereby relieving any pressure put on them (*Ibid.*).

### 3.4.2 Substantive outcomes

The substantive outcomes relate to the actual and concrete actions taken by the investee’s managers to change in order to meet shareholders’ desires (*Cundill et al., 2017:14*). An example of substantive outcome could be if an engagement dialogue or a shareholder proposal would translate into future company policy or change in practices.

### 3.5 The conceptual framework

In previous literature there is a range of theoretical approaches that deals solely with the financial outcomes of shareholder engagement. For the purpose of this project, it is therefore important to make a distinguish between two main types of shareholder engagement. For over a century, financially motivated shareholder engagement has been studied with the purpose to seek financial gains by addressing the agency problem between stakeholders and managers (see *Cundill et al., 2017:1; Goranova & Ryan, 2014:1231; Goodman et al., 2014:194; Denes et al., 2017:413*). Comparatively recently a new type of shareholder engagement has been developing, one that is not only concerned with financial gains but also prioritize other parameters, such as environmental and social performance (*Goranova & Ryan, 2014:1234*). For the purpose of this project, it is relevant to separate the two types of shareholder engagement, since the motivations and interests of non-financial shareholders may diverge from solely financially motivated shareholders (*Cundill et al., 2017:3*). It is clear however that some valuable conclusions still could be drawn by reviewing the strategies and theories used in research concerning financially motivated shareholder engagement.

An approach frequently used in corporate governance research is the agency theory. The agency theory addresses the relationship between a principal and an agent, one common agency relationship occurs between shareholders (principals) and the corporate managers (agents) (*Fama, 1980; Goranova et al., 2017:416*). The agency theory is concerned with resolving issues that can arise in agency relationships due to unaligned goals or different aversion levels to risk (*Ibid.*). Therefore, the agency theory could seem suitable for this project as it studies the interaction between shareholders and corporate management and the effects of it. However, some authors claim that shareholder engagement could be seen as a response to agency problems, when corporate governance structures have failed to restrain self-centred managers (*Goranova et al., 2017:417*). The agency theory has also been claimed to ignore that the interests of non-financial shareholders may diverge from the interests of the stakeholders who are purely financially motivated (*Cundill et al., 2017:3*). Therefore, I have chosen to not apply the agency theory in the theoretical framework of this specific project.
Another theory also frequently used in corporate governance research is the stakeholder theory (Chapter 3.4) (Majoch et al., 2017:725; Cundill et al., 2017:3). Stakeholder theory is concerned with addressing the decision-making mechanisms and power relations within corporations, with the presumption that the purpose of a corporation is to create as much value as possible for all stakeholders (Bonafous-Boucher & Rendtorff, 2016:13). Stakeholder theory attempts to better situate the role of the corporation in society and to analyse the impacts of its activities on economic, social, political, legal and cultural aspects (Ibid.:13). In order to succeed and be sustainable over time, managers must keep the interests of customers, supplies, employees, communities and shareholder aligned. The impacts or potential changes is classified in the theory as being either **symbolic** or **substantive**. Even if the stakeholder theory seems useful to map shareholders demand to corporate environmental and social performance, the theory does not explain exactly how these shareholders’ influencing attempts may affect the company itself (Cundill et al., 2017:3). Therefore, it would seemingly not be enough to depend on the stakeholder theory in the creation of the theoretical framework.

In addition to the stakeholder theory, the stakeholder salience theory (Chapter 3.3), introduced by Mitchell, Agle and Wood (1997) and modified by Gifford (2012) (see Table 4), was selected for the analysis of pension funds’ shareholder engagement dialogue with investee companies. The stakeholder salience model explains the extent to which stakeholder characteristics influence managerial decision making in respect to stakeholder claims (Majoch et al., 2017:725). The theory states that managers’ perception of salience to stakeholder claims is based on the degree the stakeholder possess one, two or all three of the following attributes: **power**, **legitimacy** and **urgency** (Thijssens et al., 2015:874). Together with the stakeholder theory and the stakeholder salience theory, the social network analysis (Chapter 3.1) will be used to explore and map the relations between the actors in shareholder engagement processes. In addition, shareholder engagement and the influence instruments used by the funds will be described in more detail (Chapter 3.2). A conceptualization of the theoretical framework is provided in Figure 2.
Figure 2. The conceptual framework of the project based on the social network analysis, stakeholder theory and stakeholder salience.

Figure 2 illustrates the conceptual framework of the project. A basic application of the social network analysis is used as the foundation of the framework, it maps the relationships between pension funds and its other stakeholders. The government is part of the policy network, media and non-governmental organizations (NGOs) is part of the societal network while the corporation or the investee is part of the economic network. In the engagement between the pension fund and the investee, the asset manager seeks to influence by a variety of instruments. In addition, as stated in the stakeholder salience theory, the theory states that managers’ perception of salience to stakeholder claims is based on the degree the stakeholder possess one, two or all three of the following attributes: power, legitimacy and urgency (Thijssens et al., 2015:874). Ultimately, the outcomes of the engagement can in accordance with the stakeholder theory, result in either symbolic or substantive outcomes by the investee (Cundill et al. 2017:4).
4. Empirical background

In this chapter, the empirical background is presented. It provides a description and relevant information about the Swedish pension system and the role of the AP funds. This chapter also contains a historical background to socially responsible investments and the development of the Swedish SRI market. The chapter ends with some reflections behind the rationales of choosing the AP funds as the case in this project.

4.1 The Swedish pension system

In the following subsection of the chapter, the historical outline of the pension system in Sweden is presented followed by how the pension system is structured currently.

4.1.1 Historical outline

In 1913, the first public pension system in Sweden was introduced by the Swedish Parliament. It is often referred to as the first universal pension system in the world because unlike its predecessors, it extended beyond the working population (Hagen, 2017:30). In preindustrial Sweden, the retirement system was founded on the family and property. Even after the introduction of the pension system, the great majority of the Swedish population were not covered by any formal pension plan. At this time, only a very limited number of individuals was qualified to receive any pension which excluded parts of the population (Nyqvist, 2016:50).

During the post- World War II era, the general development of the welfare state shifted gear and expanded quickly in Europe. Sweden sustained from high economic growth that allowed for the development of more generous social policies, including national pension system (Nyqvist, 2016:50). The 1946 reform is considered of being an important milestone. All the benefits were paid out to the Swedish population independent of past earnings and contributions (Hagen, 2017:35). The real value of the pensions tripled and every resident at the age of 65 or older was provided with a living minimum pension, without being income tested (Nyqvist, 2016:50). One of the key characteristics of the reformation in 1946 was how the pension system changed its strong insurance character to a state financed and flat-rate system (Hagen, 2017:37).

In the 1990s, the Swedish pension system was increasingly influenced by the political-economic change in the direction of neo-liberalization that swept over most Western countries (Nyqvist, 2016:53). For both men and women, the private pension income as a share of total pension income increased more than 12% between 1996 and 2010 (Hagen, 2017:45). In early 2000, the pension system had gone through a radical reformation, mainly to cope with the challenges of rapid demographic change from the baby-boom generation (AP2, 2018). To this date, this reformation was also the most recent one for the Swedish pension system. It was also during the pension fund system reformation in year 2000 the AP funds was introduced.

4.1.2 The pension system in Sweden

The current Swedish pension system consists of three components: the income-based pension, premium pension and the guarantee pension (Nyqvist, 2016:70). The income-based and premium pension are earnings related, the size of the pension benefits in these parts are adjustable and determined by the length of time worked and level of income, where an upward adjustment is made to account for the mean rise in income (Nyqvist, 2016:70; AP2, 2018). The third part, the guarantee pension is designed to provide basic security for those with little or no income. All residents in Sweden are covered by the guarantee pension, and it is financed
directly from the tax revenue of the Swedish government budget. The income-based and premium pension is also financed directly from the Swedish government budget. In addition, the system has the structure of a pay-as-you-go-system, meaning the salary earned today by workers is paid for the pensioners of today (AP1, Annual report 2018:8). If there would be a gap between the earnings and payments to the pension system, the AP funds task is to balance up the pension debt with its buffer capital.

The AP funds are organized as five buffer funds (AP1, AP2, AP3, AP4 and AP6) and one premium pension fund (AP7). The buffer funds finance the income-based pension while AP7 and private funds finance the premium pension. In 2016, the buffer funds collectively held assets worth 1 321 billion Swedish Kronor (SEK) while the premium pension fund held 250 billion SEK (SoU, 2017:1, 204). The AP funds are divided in several funds in order to spread the financial risks in the asset management. There are some differences between the funds in terms of how investments are divided between different asset classes, since the board of directors of each fund makes its own allocation decisions within the framework of the National Pension Insurance Funds (AP1, 2019). The figure below provides an illustration of how the pension system is currently organized.

![Figure 3. An illustration of the current Swedish pension system (adapted from "A unique pension system", AP2, 2018; modified by author).](image)

In the **income-based** pension part of the system, the size of every individual’s pension is governed by the accumulated sum of paid-up contribution and the return earned on them. There is also a statistical calculation on the current life expectancy with the age when the individual begins to draw the pension. In the current structure of the Swedish pension system, the age of retirement is relatively individual and flexible, however an early retirement will affect the payout negatively.

In the **premium pension** part, every individual is eligible to place 2.5% of the pension capital in up to five funds of the almost 800 funds registered (Nyqvist, 2016:71). If no choice is actively made which is the case for the vast amount of the Swedish population, the pension capital is administrated by the Seventh AP fund or AP7 in the Premium Saving fund or AP7 Såfa (*Ibid.*). The pension benefit will depend on both the individual’s contribution and the rate of return on investments.

If the income-based pension is low or non-existent, the **guarantee pension** supplements the pension (Sjögren Lindquist & Wadensjö, 2009:586). The guarantee pension is index-linked and
increases in line with prices by being indexed to the ‘price base amount’ that is calculated by Statistics Sweden (Johansson & Cheng, 2014). In 2018, the maximum guaranteed pension was SEK 8,254 per month for unmarried or single households and SEK 7,363 for married households (Pensionsmyndigheten, 2018).

4.2 The role of the AP funds in the pension system

For the AP funds buffer capital to positively contribute in financing the Swedish pension system, the return of investments needs to be higher than the development of the income index (The Swedish Parliament, 2017:130). The income index is reflecting the average income development in Sweden, which is determined by the average income earned per person (Nyqvist, 2016:72). During the period 2001-2017, the average financial return of the buffer funds was 6.2% per year while the income index increased on average by 3.0% per year (Ibid.). During this period, Sweden underwent two major economic crises, the IT-crisis in 2001 and the financial crisis in 2008 (Hagen, 2013:106). In addition, each AP fund is required to individually set aside and account for the cost of their operations, auditing and to monitor the asset management (The Swedish Parliament, 2017:7). The funds are also required by the law of the Swedish national funds (2000:192) to consider sustainability matters in their investments. Sustainability or sustainable development is also included in the AP funds core values:

“As part of the Swedish pension system, the core values of the AP funds build on the core values of the Swedish state, where democracy and sustainable development are key tenets in accordance with the current wording of the constitution. The funds core values also build on the international conventions ratified by Sweden.” Annual report 2017, Ethical Council, p.34

In terms of funding, a fully funded pension scheme requires that the current contributions are set aside and invested in order to finance the future pension of current contributors (Hagen, 2017: 5). If the current contributions to the income-based part of the pension system is higher than the pay outs, the surplus is reinvested by the buffer funds. Likewise, if the pay outs from the income-based pension is higher than the current contributions, the buffer funds must cover the pay-out gap (The Swedish Parliament, 2017:8). In 2017, the buffer funds collectively contributed with SEK 315 million to the income-based pension.

In the future, the buffer capital generated from the AP funds could have an increasingly important role in funding the pension system. Due largely to demographic change in terms of the large generation born in 1940s, it is predicted that the pension debt will increase in the coming years. During the period 2001-2008, the new inflow of the pension debt was positive and SEK 52 billion was reinvested in the buffer funds (Swedish Parliament, 2017:13). In the upcoming period 2019-2022, the net inflow of the pension debt is determined to be negative and SEK 155 billion is estimated to be withdrawn from the buffer funds in order to compensate the gap (Ibid.:13)

4.3 Socially responsible investments in Sweden

The roots of the socially responsible investment (SRI) movement are considered of being very old (Ballestro et al., 2015:8). The movement could have started as an ethical or normative approach embedded in religious values, with possible links as far back as to the Middle Ages when the Catholic Church forbade loans with interest rate (Vitols, 2011). When it comes to the country-specific history, SRI in Sweden is estimated to have started in the early 1960s when the first ethical fund, AktieAnsvar Aktiefond, was established and can be regarded as the pioneer in providing investors with an ethical private investment fund (Bengtsson, 2008:973; Scholtens &
Sievänen, 2013:609). Much alike many other European countries religious beliefs played an important role in the launch of ethical investments and the Church of Sweden also played an important role in the initialization of SRI in Sweden (Bengtsson, 2008:973). In the late 1980s and early 1990s, the development of environmental niche funds became frequently common, following the media’s attention of the Brundtland sustainability report (Ibid.). During this era, it became popular for funds to replace legal demands as a source of pressure companies. In the early to mid-2000s, SRI developed from being an attribute of specialized funds of niche investors to become increasingly adopted and mainstreamed by large institutional investors, such as pension funds, with broad beneficiary bases spread across Scandinavia (Ibid.). Another significant development during the mid-2000s was that large institutional investors became leaders in driving the SRI development. To this date, governments and public pension funds have continued to play a key role in SRI development.

When it comes to the current Swedish financial market, it is mature with institutions and shareholders in general being very aware and sensitive to social and environmental issues (Leite, 2018:116; Eurosif, 2016). Specifically, Sweden is the fourth most active European country in shareholder engagement after the UK, Netherlands and Norway (Eurosif, 2014). Socially responsible investment practices are mainly driven bottom-up by the pension funds and other institutional investors (Eurosif, 2016). The AP-funds are considered to be the leading actor in driving the development of SRI, both separately and collectively through initiatives as the Ethical Council, which is a collaboration between four of the Swedish AP-funds (AP1, AP2, AP3 and AP4) (Eurosif, 2016). The Ethical Council has stated that its mission is to bring about positive change by influencing corporations and based on their business activities to address sustainability issues (Ethical Council, 2018).

In accordance with Swedish legislation (2000:192), the Swedish AP-funds are required to invest long-term and generate high return (Swedish Parliament, 2018). Moreover, the AP-funds also have requirements to contribute to sustainable development by managing their investments in an exemplary way (Swedish Parliament, 2019). Before this, the funds were only required to consider ethical and environmental aspects into their investment decisions (Ethical Council, 2018).

4.4 Rationales for selecting the case – the AP funds

As mentioned in the unit of analysis section, the Swedish public pension funds AP1, AP4 and AP7 were chosen as the case study. There is a couple of reasons for why pension funds specifically have been identified as relevant for the design of this study. Pension funds have is usually considered to have a significantly longer-term investment horizon than most conventional investors which has increasingly made them consider immaterial risks from ESG aspects in their investment decision (Hamilton & Eriksson, 2011:44). The long-term investment horizon could possibly allow pension funds to forego short-term financial gains for the prospect of larger long-term gains on their investments (Nagell, 2011:80). Secondly, pension funds’ investments may be too large or too significant to divest easily, therefore, they are more likely to seek to exercise their influence via voice or dialogue rather than divestment (Hirchman, 1970). Lastly, pension funds and other institutional investors have a fiduciary responsibility towards their clients or beneficiaries, the so-called fiduciary duty (Nagell, 2011:80; Dawkins, 2018). With the responsibilities of fiduciary duty, pension funds are assumed to always act in best interest of the beneficiaries and invest in a manner that is unconflicted with their clients’ interests. In addition, the Scandinavian SRI market is considered as one of the world’s most developed, which makes it relevant to gain valuable insights of the AP funds approach to shareholder engagement and the corporate social and environmental effects of it.
5. Empirical results

In the following chapter, the empirical results of the project are presented. The chronological order of the empirical results section is categorised according to two themes that represent the research questions. The first theme reflects the first research question, the role of the AP funds and the influence instruments used by the funds. The second theme reflects the second and third research question, the corporate social- and environmental outcomes of the shareholder engagement dialogue and how it can become more effective.

5.1 The AP funds role and their mandate

In the following chapter a more detailed background to the First-, Fourth and Seventh AP Fund, their mission and the legislative framework (the AP Funds Act, 2000:192) that regulate them is provided.

5.1.1 AP1

The First AP fund (AP1) is a buffer fund and a state-agency in the Swedish pension fund system (SoU, 2017:238). In 2018, the fund was managing assets of SEK 338 billion (AP1, 2018). The investment philosophy of the fund’s management model is on long-term management, to utilize risk premiums, cost-effective management and sustainable value creation (Ibid.). AP1 has formulated its own objective to at least achieve a 4% long-term return on invested capital (AP1, 2019). During the period 2010-2017, AP1 achieved an average financial return of 6.1% per year while the income index increased by an average of 3.0% per year (Ibid.). The fund’s view on their sustainability efforts can be summarized as:

“We have a holistic view of the investee's value chain, we take advantage of opportunities to influence the companies in desired directions and always strive for increased transparency”

AP1, annual report 2018:10.

The fund is actively excluding investments in nuclear weapons, tobacco and coal and oil sands. The rationale for this is that the industries do not comply with internationally agreed treaties or conventions. Coal and oil sands are excluded because of the production of these two types of energy, which according to AP1 have by far the worst climate footprints making it difficult to achieve the climate goals set out in the Paris Agreement (AP1, 2019). In addition, the fund seeks to invest in corporations that contribute to sustainable development and to the Sustainable Development Goals (SDGs) (AP1, 2019:10).

5.1.2 AP4

The Fourth AP fund (AP4) is a buffer fund in the Swedish pension fund system. In 2018, the fund was managing assets of SEK 349 billion (AP4, 2018:38). AP4 has formulated its own objective to at least achieve a 4.5% long-term return on invested capital (AP4, 2019). According to the Swedish Parliament (2017) AP4 has during the past ten years fulfilled its objective to at least achieve a 4.5% return on invested capital.

AP4’s management model is based on four cornerstones: long-term approach, sustainability, individual before model and business ethics (The Swedish Parliament, 2017:266). In addition, the fund excludes investments in corporations associated with nuclear weapons, tobacco and cannabis, thermal coal and oil sand, cluster munitions and mines (AP4, annual report 2018:23). AP4 has a long tradition of working with sustainability issues in its asset management and is considering itself to currently be at the international forefront in this respect (AP4, 2018:6). The
fund’s view on their sustainability efforts can be summarized as:

“AP4 has identified the climate change as one of the greatest systemic risks for long-term asset values. Reducing the carbon footprint is a prerequisite for stable future economic development and thus for our opportunities to perform our mission over time. Our hope is that AP4’s sustainability work can help influence development and that we, together with other investors, can contribute to a solution for the global climate challenge.” (Annual report 2018, AP4, 2018:6).

In 2018, the fund divested from corporations with exposure to thermal coal and oil sand activities. The rationale for this being:

“These constitute fossil fuels with high CO2 intensity per unit of energy, which we believe must be phased out as part of global shift to a low fossil fuel society in line with the UN Framework Convention on Climate Change and the Paris Agreement” (Annual report 2018, AP4, 2018:6).

In addition, the fund invests in green bonds and unlisted growth companies that have a market position or business orientation aligned with the transition to a sustainable society.

5.1.3 AP7

The Seventh AP fund (AP7) mission is to invest the premium pension capital for the individuals who did not actively choose a privately-owned pension fund investor (The Swedish Parliament, 2017:130). In 2017, the fund was managing assets of SEK 431 billion for over 5.9 million pension savers (Ibid.). In comparison to the buffer funds who holds their assets in a broad range of securities, the AP7 holds approximately 91% of their assets in listed stocks. According to the Swedish Parliament (2017:65) the overarching goal of the fund’s asset management should be to achieve at least as much or higher financial return compared to the privately-owned pension fund peers. During the period 2010-2017, AP7 achieved an average financial return of 16.5% annually while their peers achieved an average of 9.6% annually during the same period (Ibid.).

When it comes to the funds contribution to sustainability, AP7 has identified itself to have three roles (AP7, 2018:3). The fund is informing investees about social and environmental issues and how they can be addressed. The fund invests in climate solutions to support the transition into a low carbon economy. Finally, the fund is also supporting research and spreading existing knowledge and bringing together different social actors in public discussions about climate- and social related issues (Ibid.).

5.1.4 The AP Funds Act (2000:192)

The legislation of the National Pension Insurance Funds (AP Funds) Act (2000:192) was introduced in year 2000 by the Swedish Parliament and regulates the operation and mission of each AP fund. Within the boundaries of the legislative framework, every fund then has the mandate to independently formulate its own sub goals and objectives (AP1, 2019). The overarching goal for the AP funds is to achieve higher financial return over the income-index. The legislation also obliges the funds to consider ethical and environmental aspects in their investment policies and led the funds to establish a new investment policy that involves the exclusion and active ownership of companies that are not in line with universally agreed ethical and environmental standards (Hoepner & Schopohl, 2018:668).

On January 2019, the AP Fund Act (§1a) was amended to include sustainable development as a new goal to be achieved by the buffer funds. With current wording, the buffer funds (AP1, AP2,
AP3 and AP4) must contribute to sustainable development by managing their funds in an
exemplary manner (Swedish Parliament, 2018:18). In line with the amendments to the Act,
the goal to achieve sustainable development must not compromise the funds overarching
objective of attaining long-term high financial return. The new version of the AP Fund Act sets
higher demands on the AP funds work with the inclusion of sustainable development in the AP
funds’ investments (AP1, 2019:12). To achieve this, the Swedish Government encourages the
AP funds to collaborate through joint efforts and in the Ethical Council with responsible
investments and responsible ownership (Ibid.). In addition, adjustments that enable more
flexibility for the asset managers to deviate the spread between different asset classes were
enacted.

5.2 Influence instruments initiated by the AP funds

In the following subsection of the chapter, the funds influence instruments and strategies for
socially responsible investments and shareholder engagement is presented. It ends with an
overview of the instruments or instruments used by the funds in order to exercise influence on
corporations/investees.

5.2.1 AP1

AP1 uses multiple instruments in order to exert influence on corporations; shareholder
engagement dialogue, voting at annual general meetings, participation in nomination
committees, exclusionary screening and legal proceedings (AP1, 2019). The fund is also a
member of the Ethical Council together with the other buffer funds (Ethical Council, 2018:5).

In accordance with the ownership policy of AP1, the fund shall seek an open shareholder
engagement dialogue with the investee based on correct, factual and clear information (AP1,
2019:9). If the fund is participating in nomination committees of an investee, the fund should
select board members based on their competence and integrity. In addition, the composition
of the board should also promote diversity. If an investee is associated of violating a convention or
norm that Sweden has signed, the fund should act to influence the corporation. If the
corporation does not improve, the fund should divest from it (Ibid.).

The fundamental approach for AP1 is to influence companies via dialogue as a instrument for
change, rather than by exclusion (AP1, 2019:10). The fund is often influencing companies
through joint efforts internationally were their investment is usually not large enough to
influence individually (AP1, 2018:19). Many of these joint efforts takes place together with the
other buffer funds through the Ethical Council, were the objective of the dialogue in the
engagement is often to address sustainability aspects (AP1, 2018: 24). In several Swedish
companies, the investment of the fund is large enough to participate in company’s nomination
committees (Ibid.). The nomination committee is a vital part of every company’s corporate
governance, with its objective to evaluate and suggest the composition of the board of directors
among other key duties (Ibid.).

“AP1 has high ambitions in the area of sustainability. The fund’s conviction is that investments
in sustainable companies means lower risk and are therefore more likely to give a higher long-
term return. The sustainability aspects are integrated into investment decision and in the fund’s
work as an active owner. The ambition is to create long-term sustainable value development.”
(AP1, annual report 2018:24).

The fund is actively voting on shareholder proposals in all their investees annual general
meetings (Rönnholm, 2018). The voting preparations and process is both taking part internally
and by an ESG service provider. According to the fund the voting is an important part of their efforts to influence corporations, while the engagement dialogue usually occurs behind closed doors between the engager or the asset manager and the investee.

5.2.2 AP4

AP4 uses a breadth of instruments in order to exert influence on corporations; shareholder engagement dialogue, voting at annual general meetings, participation in nomination committees and exclusionary- and norm-based screening (AP4, 2019: 26). For global equities, AP4 uses negative and positive screening in the form of low-carbon strategies. These strategies are aimed to reduce exposure to corporations with the relatively largest CO2 emissions and fossil fuels reserves (Ibid.).

The fund is actively engaging in dialogues with investees about sustainability issues both on the local market as well as internationally (AP4, 2019: 26). The dialogue usually via telephone or e-mail with the investee and not seldom in coalition with other buffer funds via the Ethical Council. If the issues persist, the fund engages in meetings with the investee, not rarely in-person (Axelsson, 2018). In Sweden, the fund is considered active owners of approximately 110-120 companies out of 130, which means that they have an ongoing dialogue with them. 50-60 of these companies they have a well-established relationship with, in many of these companies AP4 engage also through their participation in the nomination committee.

“In the nomination committee, you have the opportunity as a shareholder to influence the board composition, and it is then the board that sets standard for the entire company. That is why the board is very important, and we try to help with as much input as possible.” – Lööw, AP4, 2018

The nomination committee plays a key role in every corporation and is classified as one of the funds most efficient way to influence investees and their corporate governance policies (AP4, 2019:5).

5.2.3 AP7

AP7 is using a variety of different instruments and strategies in their work with socially responsible investments. The fund is actively engaging in shareholder engagement dialogues, voting at annual general meetings, blacklisting, legal proceedings and initiatives through coalitions (AP7, 2018:11). AP7 excludes investments from corporations that are associated with chemical weapons, cluster mines and nuclear weapons (AP7, 2017:1). The fund is using the ESG service provider ISS-Ethis, who support the fund with ESG analysis and norm-based research. In some cases, ISS-Ethis is also responsible over the shareholder engagement dialogue with investees (Ibid.). In 2018, the fund engaged in 194 dialogues with corporations on 306 cases of norm violations, as a result 65 of these corporations was blacklisted or divested from the fund’s investment (AP7, 2018:14).

In comparison to the buffer funds, AP7 is not allowed to vote on annual general meetings in Sweden or to participate in nomination committees (Florén, 2018). However, the fund can vote on international annual general meetings. In 2017, the fund voted in over 3000 international AGMs (AP7, 2018). In addition, the fund considers themselves as universal owner of shares (Ibid.), which means that they own a small proportion of the whole economy and market through its portfolios (Hawley & Williams, 2007:415).

“As a universal owner of shares, AP7’s primary contribution to sustainable development is to act as an active owner of our shares” (AP7, annual report 2018, 2019:14)
AP7 is also working through thematic investing, a strategy that seeks to align asset selection with certain social or environmental themes prevalent in society. In 2015-2017, the fund engaged in a climate theme and in 2016-2018 a theme aimed at fresh water supply and water management (AP7, 2018:12). In the fresh water supply theme, the fund engaged with corporations associated with high water intensive activities with the mission to influence and to address the risks of high fresh water usage (AP7, 2017:13).

“We have identified climate change as the most significant risk for AP7’s mission of achieving long-term financial returns and providing our savers with pension” Climate theme report, AP7, 2018

In order to reduce the carbon footprint on its investments, AP7 is annually reporting on it and seek to influence the investees to reduce it (AP7, 2017:2).

5.2.4 Overview of the influence instruments used by the AP funds

As mentioned in the previous subchapters, all the three AP funds uses a variety of different influence instruments in their work with socially responsible investments and shareholder engagement.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Influence instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP1</td>
<td>Shareholder engagement dialogue, voting at annual general meetings (both locally and internationally), participation in nomination committees (locally), initiatives through coalitions (via Ethical Council), exclusionary screening, norm-based screening and legal proceedings.</td>
</tr>
<tr>
<td>AP4</td>
<td>Shareholder engagement dialogue, voting at annual general meetings (both locally and internationally), participation in nomination committees (locally), initiatives through coalitions (via Ethical Council) and exclusionary- and norm-based screening.</td>
</tr>
<tr>
<td>AP7</td>
<td>Shareholder engagement dialogue, voting at annual general meetings (internationally), initiatives through coalitions, legal proceedings, blacklisting, exclusionary- and norm-based screening.</td>
</tr>
</tbody>
</table>

Table 5. An overview of the influence instruments exercised by the AP funds.

The table above provides an overview of the influence instruments used by the AP funds in order to exercise influence on the investees. The choice of the influence instrument exercised by
the funds is determined on the relationship with the corporation and the desired outcomes that wants to be achieved (Florén, 2018; AP1, 2019:12).

5.3 Challenges of the shareholder engagement dialogue

In the following subsection of the chapter, the possible challenges of the shareholder engagement dialogue based on the interviews is presented.

5.3.1 AP1

The short-term financial activism can potentially make the investees more protectionist to shareholder engagement via dialogue. It is therefore very important for the engager to inform the investee that the fund share similar long-term interests for the financial wellbeing of the corporation. As a long-term institutional investor and active owner, the fund seek to encourage long-term improvements by the corporation, these improvements can be in the form of resource efficiency in the form of the use of natural resources, human capital or the distribution of financial resources (Chammas, 2018).

What can also be challenging is when there are several actors to consider with divergent interests. For instance, for many years the fund engaged in dialogues with a multinational retail corporation that was alleged of encouraging anti-union activities. In media the fund was often criticised for not divesting from this corporation because of their anti-union activities, which the fund eventually did after it concluded that it had done everything it could to the corporation’s practices without any results. When the decision to divest was made public, the local trade unions expressed their disappointment of the divestment. The trade union felt like they had lost the support of a shareholder with the willingness to influence the corporation in the right direction (Chammas, 2018).

5.3.2 AP4

In some cases, disparate views on land may lead to conflicts between corporations and the local population and can be the reason for the fund to engage with the investee (Lööw, 2018). In some of those cases, the corporation also violate against international conventions for indigenous rights. The reason why tensions may arise between the two can be due to different cultural and religious view on the land in which the corporation operate (Ibid.).

5.3.3 AP7

A challenge not only to the shareholder engagement dialogue, but also for the other SRI strategies is how to measure the results or outcomes of the engagement (Florén, 2018). The number of individual cases of engagements are easy to measure, but when it comes to the outcomes of the engagement, it is harder to measure because the changes occur over time and is also part of the ‘green movement’ that is growing in society (AP7, 2019:4).

It can also be challenging when the investee does not respond at all to any type of communication at all (Florén, 2018). In those cases, AP7 act differently in European and American corporations. With American corporations, the fund might have to submit a shareholder proposal on the corporate annual general meeting to raise an issue. With European corporations, the fund will keep on trying for some time to establish a dialogue with the investee, and the last resort in many cases would be to submit a shareholder proposal (Ibid.).
5.4 The corporate social and environmental outcomes of shareholder engagement dialogue

In this subsection of the chapter, the corporate social and environmental outcomes of the shareholder engagement dialogue based on the interviews is presented.

5.4.1 AP1

A couple of years ago, the fund identified the risk associated with ESG, nowadays this have changed into identifying opportunities associated with ESG (Rönnholm, 2018). The shareholder engagement dialogues the fund has with corporations is often targeted at specific norms or sustainable development goals (SDGs). Recently, the fund’s strategy has been to contribute to specific SDGs via their influence dialogue with corporations. The targets have been SDGs 5 (gender equality), 8 (decent work and economic growth) and 16 (peace, justice and strong institutions) (AP1, 2019:10).

5.4.2 AP4

A complex industry is the mining industry, because it can affect the surrounding environment, not only where the mining activities is taking place but also the transportation of waste can be environmentally hazardous, especially in countries where the legal framework is weak (Lööw, 2018). AP4 has experienced some issues with mining companies over the past years, and in coalition with other investors the fund decided to engage in dialogue with the mining companies and put pressure by making a list of points on areas where they had to improve. Two years later, many of these mining companies had improved on all ten of the points listed (Lööw, 2018).

During several years AP4 had an on-going engagement dialogue with a mining company located in Guatemala. The company was accused of not respecting the local indigenous people who had been living in the area of the mining site for several generations. The fund conducted a Human right impact assessment (HRIA) on how the company could improve, and since the mining company was willing to change. After some time, the fund travelled to Guatemala to meet the company and present how the mining company should improve on 67 points that AP4 defined by talking to the local population. After the HRIA was presented to the management of the mining company, they changed their policies and practices. Four years later, the fund visited the mining site and talked with the local population, they said that the mining company had improved on several points over the past years and that the conflict barely exists today.

5.4.3 AP7

There are several individual cases of positive outcomes from the funds work with shareholder engagement dialogues (Florén, 2018). One of the most distinct examples of influence are the campaign “Aim for A” which AP7 in coalition with other shareholders launched, the campaign targeted some of the world’s biggest oil companies. This example shows that by voting in coalition on the annual general meetings of these companies, the fund could influence and shape policies and practices of big oil corporations (Ibid.).
5.5 How can shareholder engagement be more effective in generating social and environmental outcomes

This subsection of the chapter summarises the respondents' view on how the shareholder engagement dialogue can be more effective in generating social and environmental outcomes.

5.5.1 AP1

In some cases, there could be a ‘disconnect’ between the expectations on the roles of an investor and a corporation (Chammas, 2018). It is therefore important as an investor to communicate to the investee that the fund believes it can do something that will benefit both, the employees, but also society at large.

“It is important as an investor to build trust with the investee and to make them understand that we have similar interests in shaping conditions for a better functioning organization” (Rönnholm, AP1, 2018).

Because when the invested corporation is doing well, so do the investor. By being a corporation of good repute, the margins will be better; the return on equity and return on invested capital. It is often companies are positively surprised after meeting the investors in real life (Rönnholm, 2018).

5.5.2 AP4

Many of the corporations the fund engages with internationally are used to having a shareholder engagement dialogue with investors. The engagement then becomes easier compared to other companies, who might not even have had any engagement with shareholder yet. Sometimes the corporations prefer contact via mail and not by in-person meetings, which AP4 believes is fine if they can show us progress and improvements on the matters the fund are concerned about (Axelsson, 2018).

“What I have noticed when engaging with companies, is that the company’s appreciate if we as owners are opened to let the company describe with their own words about situation when something possibly have gone wrong, and not entirely depend on the information presented in the media, but also try to get the full picture” (Pia Axelsson, AP4, 2018).

Sometimes after the engagement dialogue with the corporation, the fund concludes that some of the information provided by the media was not entirely true, this leads them to revaluate the situation based on the new information provided by the corporation or other actors.

5.5.3 AP7

Coalitions with other shareholders are very important in order to create the pressure needed on the corporations AP7 engages with (Florén, 2018). The fund appreciates the collaboration they have through networks such as Principles of Responsible Investments (PRI) or Institutional Investors Group on Climate Change (IIGCC), were the fund meet and collaborate with other institutional investors that has similar interests. In addition, AP7 is using a variety of instruments in their work with shareholder engagement and socially responsible investments:

“Based on the experience I have, it is important as an investor to have different instruments of
engagement. This is also what brings more efficiency to the engagement dialogue, to have several SRI instruments to work with. The combination of various SRI instruments strengthens each other” – Johan Florén, AP7, 2018.

Another important aspect of an effective aspect of the engagement dialogue, is to have other influence instruments at hand. All the influence instruments are strengthening each other, and the fund always seek new ways to develop and improve the influence instruments they use (Florén, 2018).
6. Analysis

This chapter presents the empirical findings from chapters 4 and 5, further analysing them according to the theoretical framework (Chapter 3). First, the AP funds are mapped according to the social network analysis. Secondly, the dimensions of the stakeholder salience theory are examined for their relevance in the AP funds work with shareholder engagement. Conclusively, the corporate social and environmental outcomes of the shareholder engagement dialogue is examined through the stakeholder theory.

6.1 The AP funds position in the social network analysis

In accordance with the social network analysis and the triad network model, there are three types of interdependent networks that together influence the pension fund; the economic, policy and societal network (Wagemans et al. 2018: 304-305).

6.1.1 Economic network

It is in the economic network were the shareholder engagement between the AP funds and the investee take place. As derived from the interviews, most of the shareholder engagement dialogue occur behind closed doors (Rönnholm, 2018; Axelsson, 2018). While the other influence instruments used by the funds are more often exercised in public (Florén, 2018).

To gain additional information and to deeper their analysis, the AP funds are using ESG service providers such as GES International, ISS-Ethix and MSCI in the engagement practices (Rönnholm, 2018; Florén, 2018). These providers analyse ESG information that is later used by the funds in the selection and preparation of engagement cases. In some cases, the ESG providers is also engaging in the dialogue with investees (Florén, 2018). The ESG providers can also bring shareholders together through their services provide engagement in coalition with other shareholders.

6.1.2 Policy network

As state-owned agencies, the AP funds are highly dependent on the legislative framework monitoring them. In the policy network, the AP funds are governed by the Swedish government via the AP Funds Act (2000:192) (Swedish Parliament, 2018). The legal differences between the funds is that AP7 is not allowed to vote with their ownership in corporations listed in the Swedish stock market (AP7, 2019:5). While the two buffer funds, AP1 and AP4 can both vote and participate in nomination committees in corporations listed on the Swedish stock market (AP1, 2018:3); (AP4, 2019:6). Consequently, AP7 do not have the right to use voting as an influence instrument. However, this seems to have a minor impact on the fund’s abilities to influence corporation, since 99% of the fund’s ownership consists of global holdings (AP7, 2019:5).

6.1.3 Societal network

The societal network aims to identify relationships between the economic sector and civil society associated with the real world, both directly and indirectly via state-agencies. Most of the actors implementing the shareholder engagement and platforms for cooperation and coalitions between shareholders are logically concentrated in the economic network. As derived from the interviews, local media seems to have an influential role in the funds work with socially responsible investments. Also, the AP funds take the public general opinion and current
trends into consideration in their work with socially responsible investments (Chammas, 2018). Less cooperation and interaction seem to occur with other actors in the societal network, for example NGOs. The reason for this could be that NGOs have a different agenda that may not align with the agenda of the pension funds (Wagemans et al. 2018:310).

6.2 How to make shareholder engagement more effective in generating outcomes

The theory of stakeholder salience was applied to the project in order to analyse if the shareholder engagement dialogue can be more effective in generating outcomes. In this subsection, all the three dimensions of stakeholder salience (power, legitimacy and urgency) are being merged with the empirical background and results.

6.2.1 Power source of stakeholder salience

The power source of stakeholder salience determines the ability to control resources (Wagemans et al., 2013:248). AP1 and AP4 are both eligible to use their shareholder rights by voting both local and international in annual general meetings while AP7 are only eligible to vote internationally. Consequently, AP7 does not have the right to vote on resolutions as a instrument of influence in corporations listed on the Swedish stock exchange (SFS, 2000:192). AP1 and AP4 are also participating in several nomination committees of corporations listed on the Swedish stock exchange, which has a significant power dimension of influence to it. While AP7, as universal owners have a small size of ownership in a larger number of corporations in comparison to the other funds. According to Giffo rd (2010:80) the relative size of the investment can moderate factors of both power and legitimacy positively or negatively.

All the three funds are eligible to divest or exiting their investments from the corporation if the investee violate international conventions signed by Sweden (SFS, 2000:192). As derived from the interviews, divesting from the investees is commonly used as a last resort strategy as the funds prefer to engage instead with the aim of trying to influence the corporation in a desirable direction (AP1, 2019:19). However, as a result of the recent amendments to the AP funds Act (2000:192) there is an increased pressure on the funds to also contribute to sustainable development by their investments. Therefore, divesting as a strategy seems to be more commonly used by the funds (AP1, 2019:19; AP4, 2019:22).

The last power dimension that has been identified is to influence the investee by peer pressure or coalition with other shareholders:

“Coalitions with other shareholders is very important in order to generate the pressure needed on the corporations we engage with.” - Johan Florén, 2018, AP7

The buffer funds, AP1 and AP4 is also involved in joint efforts via the Ethical Council (Ethical Council, 2018:5), while AP7 individually seeks collaborations with shareholders, not seldom other AP funds (AP7, 2019:14). In 2017, the buffer funds engaged in 157 shareholder engagement dialogues with investees through the Ethical Council (Ethical Council, 2018:4).

6.2.2 Legitimacy source of stakeholder salience

The legitimacy source of stakeholder salience relates to the social acceptance of issues posed by the shareholder (Wagemans et al., 2013:248). An important dimension of legitimacy is the
individual or the engagers ability to develop trust and expertise (Gifford: 2010:14). As derived from the interviews, credibility and trust are important factors for an effective shareholder engagement dialogue with the investee. In addition, the long-term relationship between the shareholder and investee was identified as a major factor of the effectiveness of the shareholder engagement.

A challenge for the shareholder can be to raise legitimacy towards investees that are not used to engage in dialogue with shareholders (AP4, 2018). As a result, the managers of the investee may be more defensive and less open for cooperation. In those cases, building trust with the investee becomes even more vital for the continuation of the engagement (Axelsson, 2018). This can be achieved by alignment of interests between the shareholder and the investee (Wagemans et al., 2018:305; Chammas & Rönnholm, 2018).

“It is important as an investor to build trust with the investee and to make them understand that we have similar interests [...]” (Rönnholm, 2018).

Out of this, two subfactors were identified: the form of which the engagement occurs and the (cultural) proximity. In terms of the form of engagement, in-person meetings with the investee seems to be most efficient in terms of generating social- and environmental outcomes. An engagement dialogue via telephone also seems While letters, e-mail seems to have less influence on the investee.

6.2.3 Urgency source of shareholder salience

The urgency source of stakeholder salience refers to how pressing and critical the issue is for the stakeholder (Wagemans et al., 2013:248). Gifford (2010:43) divided urgency into the time sensitivity of an issue and the intensity of shareholder engagement activities. In terms of the effectiveness of shareholder engagement, the urgency source of salience seems less relevant than the other sources. On the other hand, the time sensitivity of the engagement in terms of deadlines for the responsiveness of the investee could put pressure on the investee. AP1 and AP4 have set a time limit via the Ethical Council to ensure that their engagement is effective:

“We have set a deadline via the Ethical Council for how long we will hold our investments and wait for improvements by the investee, and it is four years. After four years without any signs of improvement, the investee will be excluded from until they have improved” – Lööw, 2018

AP7 also stated that they set a deadline for the corporation they engage with. If the corporation does not show improvements, it could be divested from and eventually blacklisted from further investments (Florén, 2018). Conclusively, all the AP funds collectively recognize that if the corporation show improvements, the funds may stay invested or reinvest (Axelsson, 2018; Rönnholm, 2018; Florén, 2018).

6.3 The corporate social and environmental outcomes of shareholder engagement dialogue

The stakeholder theory was applied to the conceptual framework in order to further analyse the outcomes of shareholder engagement dialogue and how it can be done more effectively (see Chapter 3.5). In this subsection, the stakeholder theory is combined with the empirical background and results.
6.3.1 Substantive outcomes of the shareholder engagement dialogue

The substantive outcomes relate to the actual and concrete actions taken by the investee to change in order to meet shareholders’ desires (Cundill et al. 2017:14). As derived from the interviews, there is several individual cases example of substantive outcomes that can be directed to shareholder engagement dialogues initiated by the AP funds. The “Aim for A” campaign initiated by AP7 in coalition with other shareholders, by putting pressure on the big oil companies, the fund could influence and shape future policies and practices of the companies (Florén, 2018). Another example of substantive outcomes is AP1 and AP4’s shareholder dialogue with companies in the extractive sector, which eventually led the mining companies to engage in dialogue with the local indigenous population. According to the AP4, after visiting the mining site and talking to the local population, they were pleased with how the mining companies had changed their practices and policies.

6.3.2 Symbolic outcomes of the shareholder engagement dialogue

The symbolic outcomes by a corporation is usually taken if the managers of the investee do not agree with the shareholder claims and therefore not wish to make the changes suggested (Cundill et al. 2017:4). Based on the interviews, no symbolic outcomes of the shareholder engagement dialogue could be identified. Since the investee engage in symbolic actions that appear to conform to shareholders’ desires, but do not actually result in changes to the organizational activities or performance. It can therefore be challenging for the shareholder to identify if symbolic actions are being imposed by the investee.
7. Discussion

This chapter attempts to answer the aim of the project as well as the research questions. Furthermore, it provides the discussion on how the results of this project relate to other research reports.

7.1 What role does the AP funds have and what influence instruments are used to exert influence on corporations?

In previous literature, there has been increased attention on the role that institutional investors can play in fostering better ESG standards in corporations (Allen et al., 2012:5; Schäfer & von Arx, 2014; Wagemans et al., 2018). Schäfer and von Arx (2014) have investigated the role of pension funds and concluded that any intervention by the pension fund in corporate governance requires the formation of a coalition of other shareholders or pension funds. According to the findings of this project, they partly correspond to Schäfer and von Arx’s (2014) findings. All the three AP funds are actively cooperating with other shareholders through coalitions, both through the Ethical Council, via ESG service providers or by other initiatives (AP1, 2019; AP4, 2019 & AP7, 2019). It seems that forming coalitions among pension funds, asset managers and ESG service providers is vital for the pension funds in order to generate the pressure needed to exert influence on the investee.

As a beneficiary of the Swedish pension savers, the role of the AP pension funds is also to always act in best interest of the Swedish people and to generate high financial return. With the recent amendments to the AP Fund Act, the AP funds now also must actively contribute to sustainable development through their investments (AP1, 2019:4). Prior to this, the funds only had the requirement to include ethical and environmental considerations into their investment decisions (Sveriges Riksdag, 2018). Since the amendments to the Act occurred after the interviews to this project were held, it is still unclear how the changes in the Act impacts the AP funds work with SRI and shareholder engagement. It is however likely that there is even more focus on the AP funds role as a contributing factor in corporate social and environmental outcomes by their work with SRI and shareholder engagement. This is also in line to the fund’s most recent annual reports, were all the funds seems to put even greater emphasis on contributing factors to sustainable development in their asset management (AP1, AP4 and AP7, 2019).

In order to fulfil its mission to the beneficiaries, the AP funds are using a variety of influence instruments in their work with SRI and shareholder engagement. The funds influence instruments are somewhat diverse and dependents on the ownership held by the fund and their role in the pension system. Since AP7 act as a universal owner and have a small stake in many companies, they do not have the voting as an influence instrument in corporations listed on the Swedish stock market (Florén, 2018). In AP7’s case, it does not seem to have a significant effect on the funds ability to influence corporations, since the fund to this date only have 2% ownership in corporation listed on the Swedish stock market (AP7, 2019:32).

AP1 and AP4 is buffer funds in the pension system, and much of their work with SRI and shareholder engagement take place via the Ethical Council. It is also through this collaboration the buffer funds are forming coalitions with each other to identify and engage in relevant ESG issues. In addition, the buffer funds are participating in the nomination committees of several Swedish corporations. The nomination committees can be considered one of the governing bodies of a corporation, since they are the committee deciding the composition of the board of directors. By their participation in the nomination committee, the buffer funds gain an important role in the decision-making process in corporations by which they can exert influence.
7.2 What are the corporate social and environmental outcomes of the shareholder engagement dialogue?

Until now, limited research has been carried out on shareholder engagement dialogue activities and their corporate social and environmental outcomes (Vandekerckhove et al., 2007). Previous literature finds that the more pressure from stakeholders, including shareholders, the better corporate social and environmental performance will be (González-Benito et al., 2011). However, the shareholder engagement dialogue is claimed to be particularly difficult to investigate, as it largely takes place behind closed doors and little data are available, in contrast to annual general meetings where proposals and voting results are public (Wagemans et al., 2013:245). Allen (2012), therefore, has done an interesting case study conducted on the impacts and perceptions of shareholder engagement in the mining sector. This gives an interesting perspective on how the impact of engagement can successfully be analysed. But due to the low number of cases, it is still difficult to draw general quantitative conclusions on the effectiveness of engagement (Wagemans et al., 2013:245).

The empirical data of this project clearly suggests that there are positive corporate social and environmental outcomes that can be directed to the AP fund’s work with socially responsible investments and more specifically the shareholder engagement dialogue. It can however be challenging to directly led these changes in the corporation’s policies and practices to the efforts by the shareholders alone. This due to the increased centrality of corporations in society, and the stakeholders increasing demands on corporation to prioritize social and environmental performance. As a result, corporations are more and more naturally adherent to take social and environmental factors into consideration in their operations. In addition to this, it can also be questionable if the influence instruments initiated by the shareholders eventually result in substantive or symbolic actions by the corporation. The main reasons for this being that if the corporation does not agree with the shareholder claims and therefore not wish to make the changes suggested, it is likely that they will just pretend that they are willing to act on the purposed change by the shareholder (Cundill et al. 2017:23).

7.3 How can the shareholder engagement dialogue be more effective in generating corporate social and environmental outcomes?

In terms of the effectiveness of shareholder engagement, all the three sources of stakeholder salience (power, legitimacy and urgency) play an important role.

The power source of salience relates to the influence instruments exercised by the funds, which are somewhat divergent depending on their mandate (see Chapter 5.2.4). As derived from the interviews, the more influence instruments available for the shareholder to choose from, the more effective the influence instruments will be, since the instruments are empowering each other (Florén, 2018). The shareholder engagement dialogue seems like one of the more powerful instruments of engagement compared to the other influence instruments. As mentioned previously, coalitions, voting at annual general meetings and through participation in nomination committees is crucial forums for the AP funds to exercise their power towards the investees.

The legitimacy source of stakeholder salience is identified as especially relevant for the efficiency of the engagement dialogue. Legitimacy includes the engagers preparation before the
engagement dialogue and the linking and aligning of ESG issues with financial materiality. When engaging in dialogue with the investee it is important for the shareholder to build trust with the investee and to align their interests. The openness towards the investee is important in order to have an effective shareholder engagement dialogue. In addition, the cultural proximity between the two is identified to increase the efficiency. The finding is also consistent with the findings of Wagemans, van Koppen and Mol (2018) in their study of SRI in Dutch pension funds.

The urgency source of salience is identified as less relevant in comparison to the other sources of salience. The time limitation of the engagement dialogue is however crucial, but not vital for the maintaining an effective dialogue. For the AP funds, the time limitations for the engagement is set to six months. If the investee has not responded to the funds attempts to engage after six months, the consequences could be that the AP funds choice to divest from the investee and possibly even blacklist it from future investments. In addition, the deadline for the investee to show improvements after the dialogue was held is also set at six months.
8. Conclusions
This chapter intends to reconnect the aim and summarizes the key findings of the project. Furthermore, the practical implications and the suggestions for future research are presented.

8.1 Research conclusion and contributions of the project

Pension funds, like other institutional investors, have gained considerable weight in stock markets in the last decades. With growing weight in the stock market, the pension funds have also been increasingly active in endeavouring to influence corporations environmental and social performance through various socially responsible investments strategies.

From the project it can be concluded that the AP funds work with socially responsible investments are based on the mandate to serve the Swedish people and to manage their retirement capital in a desirable way. To fulfil its role, the funds need to achieve higher financial return than the income index. Partly, this is being achieved by the funds through being active owners of their investees and by engaging on ESG factors. With the recent amendments to the AP funds Act (2000:192), the funds mandate is now legally obliged to “contribute to sustainable development by managing their investments in an exemplary way”.

As this project investigates the corporate social and environmental outcomes by the shareholder engagement dialogue as a strategy for SRI; it can be concluded that there are several individual examples of substantive outcomes in the corporate social and environmental performance in corporations that can be directed to the fund’s efforts with SRI and engagement dialogues. It is however more challenging to identify the possible symbolic outcomes that may be enacted by the investee. When the funds are influencing investees, it is suggested that the more influence instruments the shareholder have available, the more effective the shareholder engagement dialogue will be.

When it comes to the efficiency of the engagement, the relationship between the engager (shareholder) and investee is identified as very important. It is also the long-term relation between the two which in most cases determines the influence instruments exercised by the shareholder. In order to build a successful long-term relationship between the shareholder and investee, it is important for the engager to enhance the preparation and try to stay fully informed on the matters being raised to the investee. This can be achieved by the shareholder by letting the engager focus the engagement on a manageable number of corporations and sectors and by having a dialogue with several different stakeholders throughout the network such as local union trade organisations or other NGOs.

The formation of coalitions between institutional shareholders, collaborative networks via ESG service providers already strengthens the shareholder engagement dialogue. However, if shareholders such as pension funds would strengthen the co-operation with other stakeholders such as NGOs and align with policy initiatives, it is highly likely that it could further enhance their legitimacy and urgency towards the investee and thereby increase the efficiency of the engagement dialogue in generating social and environmental outcomes.

Conclusively, this project is contributing to valuable insights to the field of socially responsible investments and shareholder engagement. It is however unclear to this point, how the amendments to the AP fund Act will enhance the AP funds work in generating social and environmental outcomes in the future. It is likely that contributing to sustainable development will become more and more important for the funds in order to maintain its long-term mission to achieve high financial returns.
8.2 Suggestions for future research

With the rapidly growing interest and attention from both shareholders, corporations, academia and other stakeholders, the research on socially responsible investments and shareholder engagement is truly gaining momentum. To date, much of the research that has been carried out in this field that is seeking to understand the actual effects of the shareholder engagement instruments of influence (dialogue, voting, divesting and blacklisting) are doing so in by looking at one influence instrument in isolation. Therefore, it would be interesting for future research to investigate the effects of shareholder engagement by combining different instruments of influence to see how they function in combination. This could contribute to valuable insights, for instance, how and in what situations it is more effective or viable as a shareholder to engage in dialogue over divesting with the investee and vice versa.

For future research, it would also be interesting to explore new strategies or influence instruments that can be or are already being used by shareholders in socially responsible investments and shareholder engagement. This could be done by investigating recently introduced influence instrument, for instance SDG screening, were shareholders are analysing how their investments are contributing positively (or negatively) to the fulfilment of the Paris Agreement and the SDGs.
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