Aalto University
School of Business

"Sell the sizzle":Communicating environmental, social, and governance issues to institutional investors

International Business Communication

Master's thesis

Säde Rytkönen

2012

Department of Communication
Aalto University
School of Business

Aalto University
School of Business

“Sell the sizzle”

Communicating environmental, social, and governance issues to institutional investors

International Business Communication

Master’s Thesis

Säde Rytkönen

2012

Department of Communication

Aalto University School of Business

AALTO UNIVERSITY SCHOOL OF BUSINESS ABSTRACT
International Business Communication Master's Thesis 10..09.2012
Säde Rytkönen

"Sell the Sizzle"
Communicating environmental, social, and governance issues to institutional investors

Objective of the thesis

The objective of the thesis is to understand how knowledge transfer theories can be applied to the communication of ESG (Environment, Social, Governance) factors between companies and institutional investors, in an attempt to reach a full appreciation and mutual understanding of ESG. To find answers to the main research objective, the study posed three questions: 1) How is the integration of ESG into the investment process perceived by institutional investors? 2) What are the reasons for institutional investors to integrate ESG into the investment process? 3) How could the communication process help institutional investors and companies to develop a mutual understanding and full appreciation of ESG?

Methodology

This study employed a qualitative research design. Empirical data was gathered through semi-structured interviews with six European institutional investors, who had already integrated ESG into the investment process. The findings from the interviews were triangulated with archival material, which included documents available in the public domain as well as background material provided by the investors interviewed.

Findings and conclusions

The main findings of this thesis were threefold. First, from the interviews it was evident that ESG is only one consideration in the investment process and that there are several approaches towards integrating ESG. Furthermore, the investors viewed ESG within a financial framework; the findings suggest that this financial framework is part of the vocational cultural mental model of institutional investors. Finally, the results indicate that investors attempt to reach a mutual understanding of ESG by carrying out an active dialogue with target companies.

Based on the study it can be concluded that companies should discuss ESG issues from a financial perspective. The findings suggest that companies should emphasize the role of dialogue when communicating with investors in order to develop a mutual understanding of the company's ESG performance. Finally, by proactively discussing ESG with investors, companies will not only play a role in developing the knowledge base of capital markets regarding ESG, but this will also offer an opportunity for companies to set their own communication agenda.

Key Words: corporate responsibility, ESG (environmental, social, governance) issues, knowledge transfer, investor relations, responsible investment, mental models, international business communication

AALTO-YLIOPISTON KAUPPAKORKEAKOULU TIIVISTELMÄ
Kansainvälisen yritysviestinnän pro gradu –tutkielma 10.09.2012

"Myy merkitys"
ESG-tekijöiden viestiminen sijoittajille

Tutkimuksen tavoitteet

Tutkimuksen tavoitteena on ymmärtää, kuinka tiedonsiirtoteorioita voidaan hyödyntää yrityksien viestiessä ympäristöön, sosiaaliseen kontekstiin ja hyvään hallintotapaan (englanninkielinen lyhenne ESG) liittyviä tekijöitä institutionaalisille sijoittajille, jolloin päämääränä on yhteisymmärrys ja tiedon oikein arvottaminen. Tavoitteen saavuttamiseksi asetettiin kolme tutkimuskysymystä: 1) Kuinka sijoittajat ymmärtävät ESG-tekijöiden integroinnin merkityksen sijoitusprosessissa? 2) Mitkä ovat sijoittajien motivaatiot ESG-tekijöiden integroimiselle osaksi sijoitusprosessia? 3) Kuinka viestintäprosessin avulla voitaisiin saavuttaa yhteisymmärrys ESG-tekijöiden merkityksestä?

Tutkimusmenetelmät

Tässä tutkimuksessa hyödynnettiin laadullista lähestymistapaa. Tutkimusaineisto kerättiin teemahaastattelujen avulla ja tutkimukseen haastateltiin kuutta eurooppalaista institutionaalista sijoittajaa. Haastatellut sijoittajat olivat jo integroineet ESG-tekijät osaksi sijoitusprosessiaan. Lisäksi haastattelujen tuloksia verrattiin olemassa oleviin kirjallisiin aineistoihin. Nämä aineistot koostuivat julkisesti saatavilla olevista dokumenteista sekä dokumenteista, joita haastateltavat luovuttivat taustatiedoiksi.

Tutkimuksen tulokset ja johtopäätökset

Tulokset voidaan jakaa kolmeen pääluokkaan. Haastatteluista nousi ensiksi esille, että on monta eri tapaa integroida ESG osaksi sijoitusprosessia, mutta kaikki sijoittajat korostivat, että ESG-tekijät ovat perinteisten taloudellisten mittareiden ohella vain yksi näkökohta sijoitusprosessissa. Toiseksi havaittiin että sijoittajat analysoivat myös ESG-tekijöitä taloudellisessa viitekehyksessä. Tulokset osoittavat, että taloudellinen ajattelutapa ja viitekehys ovat osa sijoittajakulttuurin mentaalisia malleja. Lopuksi, tulokset osoittavat että sijoittavat pyrkivät saavuttamaan yhteisymmärryksen ESG-tekijöistä yritysten kanssa käymällä heidän kanssaan proaktiivista dialogia.

Tulosten perusteella voi päätellä, että yritysten tulisi lähestyä ESG-tekijöistä taloudellisesta perspektiivistä ja että yritysten tulisi vahvasti hyödyntää dialogia sijoittajien kanssa. Näin voidaan saavuttaa yhteisymmärrys yrityksen ESG toiminnasta. Yritysten tulisi myös viestiä sijoittajille ESG -tekijöistä proaktiivisemmin, jolloin sijoitusyhteisön tietämys aihealueesta kehittyisi ja yritys voisi luoda itselleen mahdollisuuden määritellä ne viestinnän aiheet, josta se haluaa käydä keskustelua.

Avainsanat: yritysvastuu, ESG, tiedon siirto, sijoittajaviestintä, vastuullinen sijoittaminen, mentaalit mallit, kansainvälinen yritysviestintä

TABLE OF CONTENTS

LIST OF TABLES

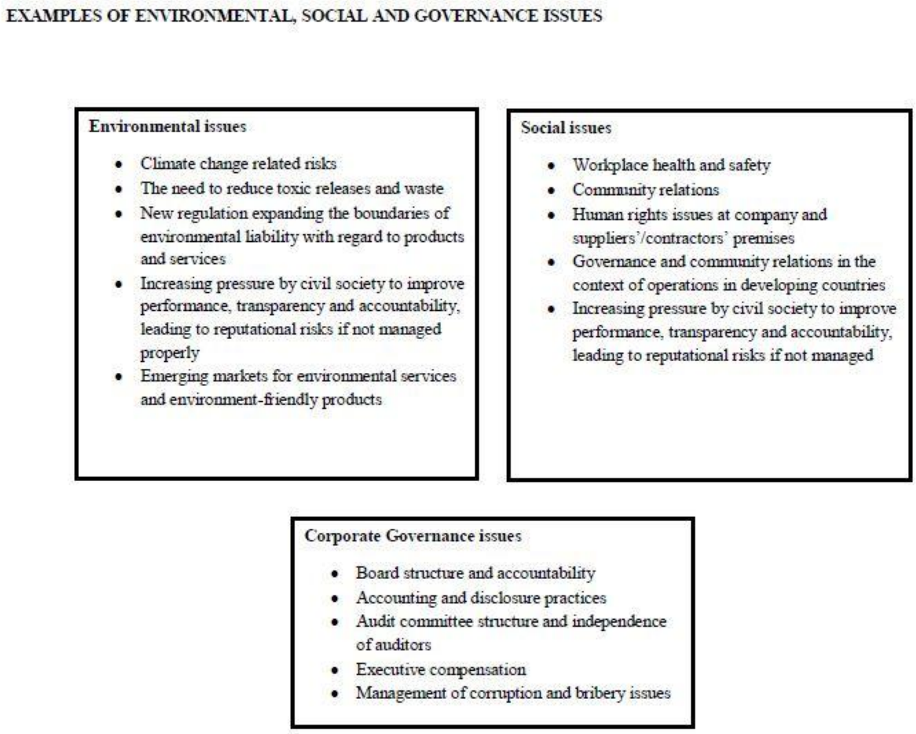
LIST OF FIGURES

1. INTRODUCTION

One of the central points of debate and discussion surrounding the concept of corporate responsibility (CR), sometimes referred to as corporate social responsibility (CSR) is whether or not a business can benefit from acting responsibly – this is known as the business case (e.g. Carroll & Shabana, 2010; Porter & Kramer, 2006; Friedman, 1970). According to Carroll & Shabana (2010, p. 86) the business case can be defined as “the arguments or rationales supporting or documenting why the business community should accept and advance the CR “cause”, i.e. how factors that have traditionally been considered non-financial can enhance business performance. Milton Friedman (1970, p. 178) famously argued, that the *only* social responsibility of business is to make profits. However, it can be asserted that the view that corporate responsibility and profits cannot be interrelated is a largely outdated one. As Du, Bhattacharya & Sen (2010, p. 8) note, corporate responsibility is more than a burden – it is a massive opportunity for companies. Porter & Kramer (2006, p. 80 and 89), for example, argue that CR can be a great source of opportunity, innovation and competitive advantage for companies if they succeed in anchoring CR into the business’s strategic framework and day-to-day operations.

Based on the increasing evidence that CR and profitability are not mutually exclusive, CR has entered the consideration of the business community. In particular, there is much interest in the relevance of CR factors for investors, as these factors have the potential to enhance corporate profitability (see e.g. Porter & Kramer, 2006 & Du, Bhattacharya & Sen, 2010). Indeed, within the investment community CR has evolved into the concept of “environmental, social, and governance” (ESG) and the question of how ESG can be integrated into the investment process has been widely discussed. ESG integration refers to the incorporation of environmental, social, and governance criteria into investment analysis. It is based on the belief that ESG is a driver of financial returns, and a valuation tool to improve investment analysis and decision making. ESG is assessed as part of a risk-return framework rather than as an ethical motivation

(Gitman, Chorn & Fargo, 2009, p. 6; WBCSD and UNEP FI, 2010, p. 79). The emphasis on minimizing risks and maximizing returns is perhaps what sets ESG and CR apart, as many issues, such as climate change, are shared (See Figure 1).


EXAMPLES OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

Environmental issues

- Climate change related risks
- The need to reduce toxic releases and waste
- New regulation expanding the boundaries of environmental liability with regard to products and services
- Increasing pressure by civil society to improve performance, transparency and accountability, leading to reputational risks if not managed properly
- Emerging markets for environmental services and environment-friendly products

Social issues

- Workplace health and safety
- Community relations
- Human rights issues at company and suppliers'/contractors' premises
- Governance and community relations in the context of operations in developing countries
- Increasing pressure by civil society to improve performance, transparency and accountability, leading to reputational risks if not managed

Corporate Governance issues

- Board structure and accountability
- Accounting and disclosure practices
- Audit committee structure and independence of auditors
- Executive compensation
- Management of corruption and bribery issues

Figure 1 Examples of environmental, social, and governance issues (BSR, 2008, p. 3 as originally identified by the Global Compact (GC) in the 2004 report entitled, Who Cares Wins: Connecting Financial Markets to a Changing World (GC, 2004).

1.1 Corporate responsibility as an area of interest for investors

The present section will examine how the concept of ESG has thus far been received by investors and how it has been integrated into the investment process. Sullivan (2011, p. 2), one of the world's leading experts in responsible investment, notes that for a relatively long time corporate responsibility was exclusively the interest of the niche group of responsible investors and failed to effectively reach mainstream investors. By mainstream investors Sullivan (2011) refers to the majority of investors or those who are not part of the niche group of responsible investors (sometimes referred to as socially responsible investors). This is also the definition of mainstream investors used in the present study. When referring to "investors" the present thesis refers to mainstream investors unless otherwise specified. In particular, the present thesis focuses on institutional investors. Responsible investment can be broadly defined as:

"Investment where social, ethical, or environmental (SEE) factors are taken into account in the selection, retention and realization of investment, and the responsible use of the rights (such as voting rights that are attached to such investments" (Mansley, 2003, p. 3, in: Sullivan & Mackenzie, 2006, p. 14)

Contemporary responsible investment strategies and investment criteria are highly heterogeneous (Lewis & Juravle, 2010, p. 486; Sandberg, Juravle, Hedesström, & Hamilton, 2009, p. 521). Sandberg et al. (2009, p. 525) argue that these differences in investment strategies can be explained by the values, norms and ideologies of the wide variety of responsible investors. One of the questions that investors deal with is whether to engage with potentially unethical companies to improve corporate conduct or whether to avoid companies breaching defined ethical standards altogether (Sandberg et al., 2009, p. 521).

To meet their varying objectives, responsible investors have adopted a number of different investment strategies, which are described below.

- **Negative screening** was one of the first strategies employed by investors who were looking to invest in an ethical way and traditionally rejected investments in "sin equities" of tobacco, alcohol, gambling and pornography (Schmidt & Weistroffer, 2010, p. 7; Sparkes & Cowton, 2004, p. 48; Michelson, Wailes, van der Laan, & Frost, 2004, p. 3). Negative screening typically involves developing a filter screen in order to avoid investing in companies that are deemed "unacceptable" (Michelson et al., 2004, p. 3).
- A **positive screening** process is similar to that of negative screening; however, instead of excluding companies, investors will invest in companies "only if"

they engage in certain activities that are considered desirable (Michelson, et al., 2004, p. 3). In this strategy, companies and industries will qualify for investment based on their social and environmental performance (Schmidt & Weistroffer, 2010, p. 8). Investors that employ positive screens hope to exert their influence to encourage companies to conduct their business responsibly by supporting good companies with capital, and withholding capital from companies with poor track records (Schmidt & Weistroffer, 2010, p. 8).

- The **best-in-class approach** focuses on a company's performance against its peers and is one variation of positive screening. Each company is evaluated against industry standards, and the best companies then qualify for the portfolio (Schmidt & Weistroffer, 2010, p. 8). This means that even companies in undesirable industries such as Oil and Mining may qualify for the portfolio, as companies within the same industry are ranked against each other, not against companies outside the industry (Michelson et al., 2004, p. 3); Schmidt & Weistroffer, 2010, p. 8). The best-in-class approach seeks to improve overall social performance by rewarding companies with "good" performance, and encouraging them to perform better (Michelson et al., 2004, p. 3).

While mainstream investors seem to have understood the arguments for incorporating ESG factors into the investment criteria, to a large extent, they have not actively integrated these criteria into their analysis (Sullivan, 2011, p. 2). However, it seems that the notion of "ESG integration" is increasingly discussed among investors, particularly from a risk-reward framework and as a way to enhance profits while responsible investors often pair financial motivations with ethical goals (Gitman, Chorn & Fargo, 2009, p. 6). This difference is evident in the definitions employed by the two different types of investors. Responsible investors discuss social, environmental, and *ethical* factors, while mainstream investors choose to focus on environmental, social and *governance* factors.

One of the main initiatives to integrate ESG factors into decision-making and ownership practices is the United Nations-backed Principles for Responsible Investment (PRI).

The UN PRI consists of six principles (see Appendix 2) and signatories of the initiative have committed to put these principles into practice (UN PRI, n.d.). As of April 2012 over 1,000 investment institutions have become signatories of the UN Principles of Responsible Investment, representing approximately US$ 30 trillion in assets under management (UN PRI, n.d.). This figure can be considered one indication of the growing interest towards integrating ESG into the investment process

.

1.2 Current practices of communicating CR and ESG to investors

The present section examines current practices of communicating CR and ESG to investors, and assesses whether these practices have been successful.

Dawkins (2004) notes that “engaging with mainstream investors has long been an ambition of the corporate responsibility movement” and that investor relations officers are increasingly recognizing the importance of communicating with the investment community (Dawkins, 2004, p. 112; Fieseler, Hoffman, & Meckel 2008, p. 1). However, as it was discussed in the previous section, the responsible investment movement is still largely restricted to the niche group of responsible investors (Sullivan, 2011, p.2). It could be argued that the reason for this is that companies have failed to communicate the business benefits of ESG (Dawkins, 2004, pp. 111–112). In essence, they are “selling the sausage but not the sizzle” (cf. Elmer Wheeler, as cited in Futerra, 2010, p. 2). This means that while companies may be communicating about ESG they are not communicating these messages in a manner that make ESG relevant to mainstream investors.

Perhaps the shortcoming of ESG communication practices can be attributed to the integrated approach of corporate communications, meaning that a single unified message is directed at all stakeholders (Christensen & Cornelissen, 2010, pp. 387 –

388). As Christensen & Cornelissen (2010, p. 402) argue, messages that are too consistent may fail to meet the unique information needs of different stakeholder groups. It seems that this predicament is especially evident in ESG communications. Dawkins (2004, p. 108) notes, “the information requirements of a range of opinion leaders and mass stakeholder audiences are not currently being satisfied by many companies, so they are not getting full credit for their responsible corporate behavior” (Dawkins, 2004, p. 108). Therefore, it is important for companies to tailor their messages to meet the distinctive information needs of different audiences as each stakeholder group has different expectations of a company, different information needs, and different responses to the communication channels utilized (Dawkins, 2004, p. 109; Christensen & Cornelissen, 2010, p. 394).

In the past few years, a plethora of consultant literature (e.g. Gitman, Chorn & Fargo, 2009; WBCSD & UNEP FI, 2010; Global Reporting Initiative, 2009) has been produced which provide companies with guidance on how they should communicate ESG to investors. In this literature it has been noted that a communication gap currently exists between companies and investors. Investors feel that investor relations officers (IRO) and senior management do not communicate ESG, and therefore messages pertaining to ESG fail to reach mainstream investors. IROs on the other hand feel that investors do not pay attention to ESG and remain focused on traditional financial indicators (Gitman, Chorn & Fargo, 2009, p. 15). Yet while IROs do not communicate ESG, they do feel that they have unique knowledge of how and why ESG is relevant from a financial perspective for that particular business, as they are the experts of that particular business and therefore understand the underlying business drivers (WBCSD & UNEP FI, 2010, p. 7). Furthermore, in the case that investors, rating agencies and indices submit questionnaires on ESG performance, companies feel that these fail to ask financially material questions (WBCSD & UNEP FI, 2010, p. 8). This communication gap suggests that companies and investors are not united in their understanding of why ESG factors are important.

A survey conducted by CSR Europe found further incongruencies between the company and investor communication on ESG (Amaeshi & Grayson, 2010, p. 11). The findings suggest that a proactive dialogue between companies and the investment community often did not exist and that company representatives often lacked an understanding of how investors made use of ESG information (Amaeshi & Grayson, 2010, p. 11). One respondent summarized the current problems facing the mainstreaming ESG:

> *"It is not a problem of measurement or coming out with indicators. Fundamentally, the questions are 1) how the information is communicated and presented and 2) how is the information received and understood"* - *(as cited in Amaeshi & Grayon,2009, pp. 10–11).*

To summarize, the workshops and surveys discussed above seem to indicate that companies are not communicating ESG in a manner that makes it relevant to investors – they are not addressing the right issues in the right way. Therefore, it seems that not only does a communications gap exist, but that there might also be differences in the knowledge bases of corporate representatives and investors, and for this reason they emphasize different aspects of ESG.

1.3 Investor relations as a process of knowledge transfer

While the communication of ESG issues to mainstream investors has proved to be problematic, it is acknowledged that publicly listed companies do have some experience in communicating with investors, namely through the practice of investor relations. The present section will briefly introduce the concept of investor relations and attempt to illustrate how it can be considered a process of knowledge transfer.

In publically listed companies, the investor relations function is the most important connection between companies and investors. NIRI (National Investor Relations Institute), which is a U.S. based leading association for investor relations officers and consultants, defines investor relations (IR) as:

"…a strategic management responsibility that ***integrates*** *finance, communication, marketing and securities law compliance to enable the most effective* ***two-way communication*** *between a company, the financial community, and other constituencies, which ultimately contributes to a company's securities achieving* ***fair valuation.****" (National Investor Relations Institute, n.d.) [emphasis added].*

In the present definition there are three concepts, which merit further attention. First, investor relations is a discipline which *integrates* different bases of knowledge in the organization. As noted by NIRI, the classic disciplines of IR have been the legal function, finance function, and communication (marketing) function. This thesis aims to develop an understanding of how ESG (Environmental, Social, and Governance), which requires a different knowledge base from traditional areas of IR, could be integrated into the IR discipline. Secondly, NIRI's definition of IR emphasizes the role of *two-way communication*. The present thesis will examine the importance of two-way communication in investor relations, and explore how this dialogue could be utilized when communicating ESG with investors. Finally, the third important component of the definition of investor relations is *fair valuation*. Fair valuation, refers to a consensus by the company and the market (e.g. investors and analysts) of the price of the company's stock. This requires minimizing information asymmetry, so that both actors have a congruent understanding of the company's value. Ultimately, achieving fair valuation is the goal of the investor relations officer. Therefore, in an ESG context, the objective would be to develop a mutual understanding and full appreciation of the company's ESG issues.

The definition of investor relations presented above, emphasizes the flow of knowledge between two parties to reach a mutual understanding (i.e. fair valuation) of the company's share price. The present definition can be viewed as intertwined with the concept of knowledge transfer as both knowledge transfer and investor relations ultimately aim to reach a mutual understanding between two parties by utilizing communication. Knowledge transfer theories aim to understand how knowledge can be transferred between two individuals, with their unique cognitive dispositions, in order to align their mental models so that a mutual understanding can be reached (see e.g. Yakhlef, 2007; Ringberg & Reihlen, 2008). In knowledge transfer theories, knowledge is usually conceptualized as "processed information", as e.g. in the following definition:

"… knowledge is information possessed in the minds of individuals: it is personalized information (which may or may not be new, unique, useful or accurate) related to facts, procedures, concepts, interpretations, ideas observations and judgments (Alavi & Leidner, 2001, p. 109).

It should be noted that knowledge transfer theories (e.g. Ringberg & Reihlen, 2008) highlight the unique mental models of individuals, i.e. that individuals process information differently based on the individual's existing knowledge base. However, as these frameworks are believed to be partially shaped by culture, it can be suggested that individuals belonging to the same cultural groups, such as organizations, may to some extent share similar mental models (Jameson, 2007). In order for individuals to understand information in the same way, they must have a similar knowledge base, or similar mental models and messages should be framed to match these mental models (Alavi & Leidner, 2001, p. 109; Ringberg & Reihlen, 2008).

While the present thesis is mainly concerned with collective cultural models primarily defined by vocation and organizational culture, the author recognizes that communication occurs between individuals and not cultures or organizations (see Jameson, 2007, p. 202). Therefore, the knowledge transfer process, which is characterized by communication and translation (Yakhlef, 2007), is also impacted by private mental models. These private models are defined by e.g. personality and, character and spirit and are unique to the individual (Jameson, 2007, p. 207).

The present author also recognizes the challenges of studying mental models, because as Rouse & Morriss (1986, pp. 349 and 355) point out, mental models are never fully transparent. As Jameson (2007, p. 201) and Rouse & Morris (1986) note, it is difficult to access other people's mental models. Furthermore, it is difficult to distinguish where the application of cultural mental models end and the application of private mental models begin (Ringberg & Reihlen, 2008, p. 922).

While some insight to mental models can be gained through e.g. verbal protocols, it is important to acknowledge that it may not be possible, reliable or valid for individuals to verbalize their mental models (Rouse & Morriss, 1986, pp. 349, 352, and 355). Therefore, verbal protocols can be used with caution to make some generalizations about the cultural mental models of investors. The value of applying knowledge transfer theories are that they can potentially provide insight into how diverging mental models can be aligned when communicating knowledge to individuals from different backgrounds. This understanding can help minimize the amount of knowledge that is lost in translation.

In the case of ESG, it seems that companies and investors seem to have difficulty establishing a common understanding of the importance of ESG; this implies that it is possible that their knowledge bases or mental models are not aligned. Different mental models may, for example, result in companies and investors interpreting shared information in different ways. Dawkins (2004, p. 111), for example, found that two out of five analysts and institutional investors working in London's financial district (i.e. "The City") regarded communication of a company's responsibility as important. However, the remaining three out of five analysts failed to recognize the relevance of the business benefit of ESG (p. 112). It is to be noted that according to Dawkins, investors failed to recognize the relevance of ESG, because they felt that the connection to the *business benefit* did not exist. This is an important insight in understanding the mental models and pre-existing knowledge bases of investors, because it implies that for information to be worth examining, it must have relevance for the business; in other words, it must have an impact on the financial performance of the company.

Furthermore, the prevailing communication gap seems to suggest that investors and companies process information differently on the basis of their existing mental models. Therefore, it can be suggested that in order for make ESG relevant, companies must communicate ESG in a manner that connects it to existing mental models and knowledge bases of investors. However, while the knowledge bases of investors and companies seem to have discrepancies, knowledge transfer theories (e.g. Ringberg & Reihlen, 2008, Yakhlef, 2007) suggest that these knowledge bases can be aligned through social interaction, e.g. a dialogue. This interaction would serve the purpose of disrupting and confirming existing mental models to ensure that investors and companies develop a mutual understanding of, for example, ESG (Eppler, 2007; Ringberg & Reihlen, 2008). The relationship between investor relations theories and knowledge transfer theories will be further examined from the perspective of ESG communication in Chapter 2.

1.4 Contribution to international business communication

The contribution of the present thesis to international business communication is two-fold. First of all, to the knowledge of the present author this thesis is unique in its approach of examining the corporate communications discipline of investor relations by applying knowledge transfer theories, specifically by considering how the knowledge base of institutional investors and companies relating to the relatively new concept of ESG can be aligned, i.e. how a mutual understanding of ESG can be developed through communication.

Secondly the present thesis attempts to enrich the international business communication field’s understanding of culture. Jameson (2007 pp. 203–204) emphasizes the need to expand our current understanding of culture, as “equating culture with country limits our understanding of business issues, problems, and strategies”. In particular, she argues that in the study of international business communication, culture deriving from a person’s vocation and education must be considered central as these collective cultures also play an important role in shaping an individual (p. 206).

Therefore, the thesis also seeks to further contribute to our understanding of mainstream investors – specifically institutional investors – as a vocational culture by providing insight to how they perceive ESG integration as well as their motivations for integrating ESG into the investment process. While mental models and culture can never fully be accessed (Jameson, 2007, p. 201; Rouse & Morris, 1986, p. 224), this insight to their cultural and mental models can potentially have important implications on how ESG should be communicated to investors.

1.5 Purpose of the study

The purpose of the present thesis is to understand how knowledge transfer can be applied to the communication of ESG between companies and institutional investors, in an attempt to reach a full appreciation and mutual understanding of ESG. In order to reach an understanding of how communications can be used to help align the mental models of institutional investors and companies, the first step is to examine how investors perceive ESG integration, i.e. what integration means to them and what are and the motivations of institutional investors for integrating ESG into the investment process. This may provide some insight into the mental models of investors, i.e. how they process information. Secondly, knowledge transfer theories will be applied in order to understand how companies could begin to bridge existing gaps in the knowledge bases between companies and institutional investors regarding ESG and how mental models could be aligned through communication.

Therefore this thesis brings together theories relating to the practice of investor relations as well as Ringberg & Reihlen's (2008) Socio-cognitive framework of knowledge transfer, with an aim to develop a framework which applies knowledge transfer theories to the process of communicating ESG with investors, in order to reach a mutual understanding and full appreciation of ESG.

Institutional investors, e.g.. pension funds and insurance companies, will be the focus of this study as they are widely considered the pioneers of ESG integration (Sullivan & Mackenzie, 2006, p. 15). As they are pioneers in integration, they can be considered élite participants, i.e. they have extensive knowledge of integrating ESG into the investment process (Gillham, 2005). Therefore, research interviews will be used to gain insight to their motivations for ESG integration, and to understand how communication could be used to develop a mutual understanding between companies and institutional investors.

The present thesis aims to answer the following questions:

1) How is the integration of ESG into the investment process perceived by institutional investors?

2) What are the reasons for institutional investors to integrate ESG into the investment process?

3) How could the communication process help institutional investors and companies to develop a mutual understanding and full appreciation of ESG?

Based on these questions, the thesis aims to provide a framework and recommendations that can be used by companies when communicating ESG with institutional investors.

1.6 Structure of the thesis

The present thesis is divided into five separate chapters. The present chapter provides an introduction and indicates its contribution to the International Business Communication discipline. It also presents research problems and research questions which will be explored in this thesis. The second chapter presents the literature review, which is divided into three main parts: a section exploring investor relations, a section discussing knowledge transfer theories and a section detailing the theoretical framework. After reviewing previous literature the third chapter gives details of the method of this study.

Chapter 4 presents the findings of the research and discusses these findings from the perspective of the theoretical framework. Chapter 5 concludes the thesis by summarizing the study, highlighting the main findings and implications, discussing the limitations of the study and by providing suggestions for further research.

2. LITERATURE REVIEW

The purpose of the present Chapter is to review literature relevant to the present study. The objective of the literature review is to analyze how knowledge transfer theories can be applied to the communication of ESG to mainstream institutional investors. The present Chapter is divided into three sections. The first section will discuss earlier literature on investor relations (IR). This will be followed with an analysis of how ESG can be integrated into the IR discipline in order to communicate ESG to mainstream investors. After that knowledge transfer theories will be examined in an attempt to develop an understanding of how these theories can be applied to the communication of ESG, in order to reach a full appreciation and mutual understanding of ESG, i.e. to align the knowledge bases and mental models of institutional investors and companies. Finally, the literature review will conclude with a theoretical framework, which applies knowledge transfer to the process of communicating ESG to mainstream institutional investors.

2.1 Investor relations as a dialogue

The present section will examine the concept of investor relations (IR). IR will be explored in order to understand how companies can utilize a dialogue with institutional investors in order to build rapport and to achieve a mutual understanding of the company' performance in what can be considered traditional (i.e. law, finance, and communication) areas of investor relations. Sub-section 2.1.1 will further examine the role that dialogue plays in reaching a mutual understanding and fair evaluation of share price. Finally, sub-section 2.1.2 will consider how ESG communication can be integrated into current practices of IR.

The primary role of investor relations (IR) professionals is to ensure that a firm's equity is fairly priced; thus the effectiveness of investor relations might be regarded largely from the perspective of volatility in share price (Hockerts & Moir, 2004, p. 86). To ensure the fair evaluation of share price, the investor relations function communicates information and insights between the company and the investment community (IR society, 2012). This process allows the market to make a fair assessment of the company's share price through a "full appreciation of the company's business activities, strategy and prospects" (IR society, 2012). Mars, Virtanen & Virtanen (2000, p. 43) note that when a company's share price is undervalued, the company's IR function has failed to communicate and build trust with the financial community. While Mars et al. (2000) discuss failure to *deliver* information, perhaps it is worth noting that it is also possible that this information has not been "fully appreciated" by the target audience. In other words, the message recipient has failed to understand the full value of the information, as perceived by the company, due to divergent pre-existing knowledge bases and mental models. Therefore, investor relations can essentially be seen as an activity or corporate function which aims to bridge the knowledge gap between companies and the investment community.

There are several different approaches to investor communication which companies engage in during their pursuit to achieve a fair valuation of share price. In a survey among UK investment professionals, Laskin (2009, p. 218) found that the investor relations activities most often carried out to achieve a fair valuation, i.e. a mutual understanding of share price, were: attending road shows; preparing presentations and conferences; as well responding to requests from shareholders, analysts or stockbrokers. One-on-one meetings, negations and report preparations were also cited as important. All of these activities, with the exception of corporate responsibility report preparations, can be considered part of managing relationships between companies and the investment community. Corporate responsibility reports in their traditional form can be considered a one-way communication channel as they facilitate limited social interaction between companies and their target audience.

Based on the survey results presented above, Laskin (2009, p. 213) argues that investor relations is experiencing a major shift from financial reporting to building and maintaining relationships with shareholders. This shift is also evident in Tuominen's (1997) theoretical model of investor relations, where three forms of relational bonds are emphasized: attraction, trust and commitment. Tuominen (1997, p. 51) argues that the objective of investor relations is to create and increase long-term interaction (relationships) between companies and the investor community. Kelly, Laskin & Rosenstein (2010, p. 204) refer to long term relationships with investors as “relational investing”.

Tuominen (1997, pp. 49 – 50) also discusses four elements of exchange between investors, which form the basis of relationship building. Information is identified as one of the key instruments of exchange in investor relations (Tuominen, 1997, p. 49). He notes that information is vital in facilitating exchange between investors and listed companies. Tuominen (1997, p. 49) discusses the role of social exchange and notes that it has an important function in reducing uncertainties between two parties. He emphasizes that this exchange is particularly important when there exists a spatial or cultural gap between parties as social interaction acts as a means to reach a mutual understanding.

In sum, it can be concluded that in order to achieve a fair valuation of share price the practice of investor relations calls for social interaction in the form of proactive dialogue between investors and company representatives. This dialogue can be considered to be part of relationship management.

2.1.1 Dialogue as a means of achieving mutual understanding

The concept of social interaction is a cornerstone of the present thesis. Therefore, the present sub-section will further examine the role of two-way communication and dialogue as a means of achieving a mutual understanding between investors and company representatives. The role of one-on-one meetings will be considered in particular. The limitations of the theories applied will also be considered. Finally, the role of (investor relations officers) IROs facilitating internal relationships will also be briefly discussed.

The role of dialogue in the investor relations profession has been widely documented by several researches, such as Kelly, Laskin, & Rosenstein (2010). Kelly et al. (2010) surveyed 145 members of the National Investor Relations Institute and the Public Relations Society of America's Financial Communications Section, in order to understand the use of different communication models in IR. They found that the majority of Investor Relations Officers surveyed felt that they engaged in two-way symmetrical communications, despite the fact that previous literature had considered dialogue in investor communications a utopian ideal (Kelly, Laskin & Rosenstein, 2010, p. 182).

The majority of IROs surveyed by Kelly et al. (2010, p. 200) agreed with the statement: "The purpose of this program is to develop mutual understanding between the management of my company and the financial publics that the organization affects". Their answers imply that investor relations extends their activities beyond providing information to the markets. The purpose of the two-way symmetrical model of communication is to "generate a mutual understanding with strategic publics" of the company's activities (Kelly et al., 2010, p. 204). This means that through communications IROs and investors can attempt to bridge existing differences the understanding the value of information and knowledge being discussed.

Meetings with analysts and investors are generally considered one of the most important elements of investor relations as meetings play a key role in facilitating two-way communications and dialogue (Marston, 2008; Mars, Virtanen & Virtanen, 2000; Roberts, Sanderson, Baker & Hendry, 2006). In fact, Marston (2008, p. 21) found that UK company managers considered one-on-one meetings the *most* important communication channel among both analysts and investors. Kelly, Laskin & Rosenstein (2010, p. 205) hypothesize that the reason for emphasizing these meetings is the power that investors have over a public corporation. This means that it is even more important to ensure that investors agree with the current and future direction of the company.

Hence, managers view meetings with investors as a brief “opportunity to influence the content of the picture – to augment, adjust, inform, amend and update the complex and mobile gestalt of company identity that is the basis of investor decision making” (Roberts Sanderson, Barker & Hendry, 2006, p. 284). Managers attempt to work on improving investor “knowledge” by, for example, ensuring a mutual understanding of a particular piece of information (p. 285).

However, while Marston (2008) and Kelly et al. (2010, p. 193), found that two-way dialogue was an important feature of investor communications, it is worth noting that these findings were based on surveys. Therefore, the results are merely based on the perceptions of respondents. As Kelly et al. (2010, p. 193) note, a two-way dialogue has also been considered the ideal form of investor relations, so it could be possible that the respondents have sought to depict themselves in a more positive light, thus emphasizing the role of two-way communications in their responses. Crane (1999, p. 243) identifies the aforementioned phenomenon as social acceptability bias. Roberts, Sanderson, Barker & Hendry (2006) for example, closely examined one-on-one meetings between investors and companies and found that while building a mutual understanding was referred to as the goal of these meetings, in reality meetings were an opportunity for investors to exert influence on the company. These findings suggest that the perceptions of investor relations officers may differ from the true nature of these meetings with investors. Furthermore, Roberts et al.’s (2006) findings suggest that power relationships are important considerations in the communications process. While these considerations are important they are beyond the scope of this thesis. However, while these limitations should be acknowledged they do not compromise the value of studying different tools of investor relations and how these can be applied ESG communications, in order to enhance the effectiveness of IR.

Thus far the role of relationship building between companies and investors has been emphasized, but the role of internal relationship management can arguably be considered of equal importance. While investor relations officers play a significant role between the company and the investor community, they also have an important role internally in companies. According to Kelly, Laskin, & Rosenstein (2010, pp. 199–200) some IROs also felt that their task was as much to change the views and behaviors of management as it was to change the attitudes and behaviors of the financial public. IROs also deliver information from the investors and financial analysts back to management (Laskin, 2009, p. 225). This implies that investor relations is not only a two-way communication practice with external stakeholders, but two-way communication (i.e. dialogue) is also practiced internally within companies.

In sum, the present sub-section the role of investor relations has been examined from the perspective of building relationships between companies and investors; in particular, this sub-section has considered the role of a dialogue between companies and investors in achieving a mutual understanding and full appreciation of a company's activities. The role of the IRO as a facilitator of dialogue between company management and investors has also briefly been discussed.

2.1.2 Integrating ESG into IR communications

Thus far in the present Chapter, the importance of dialogue and two-way communication in the practice of investor relations has been considered, particularly from the perspective of successfully fostering a mutual understanding between companies and investors of a company's "business activities, strategy and performance" (IR society, 2012). The present section will examine how ESG, a relatively new field of knowledge, could be integrated into current investor communications practices by framing messages using familiar jargon for investors and how a mutual understanding of this area of knowledge can be reached between companies and investors through dialogue. Finally, the role sustainability managers and top management – in addition to IROs – have in successfully communicating ESG to investors will be examined.

To date there has been little research on how companies should engage with investors in terms of ESG. Dawkins (2004) notes that "engaging with mainstream investors has long been an ambition of the corporate responsibility movement" and that investor relations officers are increasingly recognizing the importance of communicating with the investment community (Dawkins, 2004, p. 112; Fieseler, Hoffmann & Meckel, 2008, p. 1). The UK's IR society views investor relations as a process that allows the market to make a fair assessment of the company's share price through a "full appreciation of the company's business activities, strategy and prospects" (IR society, 2012). Therefore, it is important to allow investors to fully appreciate the value of ESG to a particular company and to understand how ESG can impact share price. In order to encourage a full appreciation of ESG, it can be suggested that ESG communications is more relevant if framed in a manner that links it to familiar concepts (Fieseler, Hoffman & Meckel, 2008, p. 4).

Several researchers, such as Laskin (2009), suggest that the investor relations (IR) function plays a crucial role in bridging the knowledge gap between companies and investors. The reason for this is that the due to the investor relations discipline's integration of finance and accounting, IR is characterized with specialized terms, equations, and jargon (Laskin, 2009, p. 214). Common IR jargon could be used to frame ESG in a manner that emphasizes its relevance to investors by demonstrating the link to business performance (Fieseler, Hoffman & Meckel, 2008; Dawkins, 2004, p. 112; Gitman, Chorn & Fargo, 2009, p. 26). In other words, it can be argued that IROs have the ability and existing knowledge base required to demonstrate the relevance of ESG by tying these issues to the existing mental models of investors.

As Fieseler (2011, p. 142) notes, capital markets will consider ESG factors relevant when they are discussed in connection to shareholder value. Communication barriers could be overcome by communicating ESG utilizing familiar concepts for investors and analysts (Fieseler, 2011, p. 143). We could argue that this kind of alignment would be likely to match the mental models of investors, and would therefore be more effective. Concepts that ESG could be linked to include:

- Cost reduction
- Source of opportunity
- Risk prevention
- Competitive advantage
- Corporate governance
- Employee retention

(Fieseler 2011, p. 143; Hockerts & Moir, 2004, p. 90; Dawkins, 2004, p. 112; DVFA & EFFAS, 2010, p. 11)

However, while it seems that communicating ESG to investors entails framing messages using familiar terms and jargon is important, it may not be sufficient to achieve a mutual understanding. The investor relations discipline has experienced a shift from communicating financial information to relationship building, suggesting a need for dialogue between investors and companies. Meanwhile, the literature which discusses ESG communication between companies and investors indicates that a one-way communication model is still widely applied (e.g. Hockerts & Moir, 2004). In the case of responsible investors (RIs), according to the investor relations officers (IROs) surveyed by Hockerts & Moir (2004, p. 93), the majority of ESG information was communicated to RIs through surveys and questionnaires they submitted to target companies. In addition to these questionnaires, IROs also viewed websites and reports as important tools of communication with RIs to address basic ESG issues (Hockerts & Moir, 2004, p. 91 and Gitman, Chorn & Fargo, 2009, p. 26). Arguably, the aforementioned communication channels offer limited opportunities for interaction. Therefore, at least in the case of RIs the communication of ESG seems to primarily utilize one-way model of communication.

While Hockerts & Moir (2004) studied responsible investors, and therefore perhaps represent divergent investment strategies and different investment motivations than mainstream investors, their study can be considered valuable when examining the integration of ESG to investor communications. Others, such as Fieseler (2011) and Fieseler, Hoffmann & Meckel (2008) have studied how ESG should be communicated specifically to mainstream investors, but these studies are limited to framing messages and utilizing the correct terminology. Hockerts & Moir (2004), however, have also examined communication channels as well as the role of the IRO in communicating ESG. Therefore, their findings are relevant to the present thesis.

It can be argued that developing a common knowledge base is perhaps the most crucial step in bridging the existing knowledge gap related to ESG communication between companies and investors; however, Hockerts & Moir (2004, p. 91) found that investor meetings were largely underutilized by responsible investors. Only a minority of the 150 to 300 investor meetings attended by IROs (investor relations officers), concerned ESG issues (Hockerts & Moir, 2004, p. 91). Considering the current emphasis of two-way communication in investor communications (see e.g. Tuominen, 1997), it is possible that the one-way nature of current ESG communication discussed above is proving to be one of the major challenges in furthering the integration of ESG issues into the investment process.

In the case that a two-way approach to communication was taken, one-on-one time in meetings was utilized, just as in "traditional" IR, to build a deeper understanding of the company's ESG efforts. Personal meetings were considered valuable for discussing strategic questions or for a debate on special issues (Hockerts & Moir, 2004, p. 91; Gitman, Chorn & Fargo, 2009, p. 26). IR professionals also felt that they had an important role in educating mainstream investors about significant ESG issues pertaining to the firm, and explaining financial materiality of these issues. According to a study conducted by Hockerts & Moir (2004, p. 95) IROs found that they were even educating investors whether prompted or not. As one of their respondents noted:
"We as the IR department should inform mainstream investors [about material ESG issues] and hopefully they will include this in their investment decision" (Froehlich, Volkswagen) (as cited in Hockerts & Moir, 2004, p. 95).

In other words, personal meetings can be considered a tool for negotiating a mutual understanding and full appreciation of ESG, while questionnaires, websites and reports present investors with the necessary information. Therefore, one-on-one meetings appear to serve an important purpose in ensuring that investors have a full appreciation of the company's ESG efforts as well as developing a mutual understanding of ESG.

It is also worth noting, that just as in traditional IR, companies can use one-on-one meetings as an opportunity to deliver market sentiments back to the company. IROs play an important role in identifying emerging issues that investors are interested in and communicating these back to management (Hockerts & Moir, 2004, p. 94). Gitman, Chorn & Fargo (2009, p. 29) also stress the role of IROs in communicating the connection between ESG information and financial performance to company management, who can then further comment on these issues. IR seems to be "the eyes, ears and mouth of the organization" (Hall, BP) (as cited in Hockerts & Moir, 2004, p. 92). Informal engagement with investors and analysts were mentioned as important tools of learning. It was in these informal settings that investors raised emerging issues to discussion and asked how the company planned deal with these issues (Hockerts & Moir, 2004, p. 94).

One of the main investment strategies employed by RIs (responsible investor) and many institutional investors – who are the focus of this thesis – is engagement (Vanderckhove et al.,2007, p. 403). The engagement process is a good example of investors and companies employing two-way communications to reach a shared understanding of ESG issues. In an ESG context the engagement process means that rather than looking to invest in the best companies or avoiding the worst companies, investors seek to engage with management relating to non-financial issues and to influence the way the company does business in order to encourage improvements or change in corporate behavior (Vandekerckhove, Leys, & Van Braeckel, 2007, p. 403; Sullivan & McKenzie, 2006, p. 150; Domini, 2001, p. 83). The motivation for engagement includes both improving long-term shareholder returns as well as securing the investor's own corporate reputation among their stakeholders (Vanderckhove et al., 2007, p. 403).

There are two main forms of engagement. The first is so-called "shareholder activism" where shareholder resolutions are presented at annual general meetings. This tactic is also practiced by NGOs (non-governmental organizations) that purchase shares in an effort to put forward a shareholder resolution which are subject to a vote at the Annual General Meeting (AGM) of publicly listed companies (Vanderckhove, Leys & Breackel, 2007, p. 405). These resolutions often cover issues that management would rather not discuss and therefore resolutions can be used to oblige management to take certain action (Domini, 2001, p. 87). It is also the preferred approach for many American investors, while most European investors prefer a more informal approach where investors raise their concerns through a dialogue with management (Vandekerckhove, Leys, & Van Braeckel, 2007, p. 404).

While the role of the IRO in ESG communications is emphasized by Gitman, Chorn, & Fargo (2009) and Hockerts & Moir (2004), sustainability managers also play an important role in internally educating IROs on material ESG issues pertaining to the company – yet it seems that currently there remains a communication gap between the two (WBCSD & UNEP FI, 2010, p. 9). Whereas IROs can proactively build the investment community's competencies relating to ESG, sustainability managers are "crucial to bridging knowledge and expertise on the materiality of ESG" with IROs (WBCSD & UNEP FI, 2010, p. 9). In other words, sustainability managers play a role in preparing IROs to face investor questions pertaining to ESG issues. An understanding of most material issues,will prepare IROs for conversations with investors who aim to understand which ESG issues a company deems strategic, and the reasoning behind these strategic decisions (Gitman, Chorn & Fargo, 2009, p. 26).

Literature suggests that sustainability managers and IROs should take time to ensure that the company's CEO and CFO also have the ability to discuss issues relating to ESG with investors. Roberts, Sanderson, Baker & Hendry (2006, p. 286) found that individual executives – the most senior managers – represent the company and their behavior is believed influence the way in which investors perceive the company. This would imply that it is possible that if senior management has a poor grasp of ESG issues, it may reflect upon the entire company and undermine ESG's link to corporate strategy.

To summarize section 2.1, a company’s investor relations function communicates information and insights between the company and the investment community with the aim of allowing investors to gain a full appreciation of the company’s activities and to achieve a fair valuation (i.e. mutual understanding) of the company’s share price (IR society, 2012). IR theories (e.g. Laskin, 2009 and Kelly, Laskin & Rosenstein, 2010), suggest that two-way communication and dialogue play an important role in achieving a mutual understanding between companies and investors. However, when communicating ESG companies still seem to engage in one-way communication practices, despite the fact that the benefits of dialogue in communicating ESG has been recognized by IROs (Hockerts & Moir, 2004, p. 91). Based on this, it could be suggested that ESG communication would benefit from further employing two-way communication strategies, which are arguably more effective in reaching a mutual understanding of ESG.

Finally, the role of IROs, sustainability managers, and top management in communicating ESG was examined. While IROs play a key role in communicating ESG to investors as they are familiar the right jargon (see e.g. Fieseler, Hoffmann & Meckel, 2008), sustainability managers are important in bridging internal knowledge gaps regarding ESG (WBCSD & UNEP FI, 2010, p. 9). Top management in turn influence the way investors perceive the company (Roberts, Sanderson, Baker & Hendry, 2006, p. 286), implying that if they have a poor grasp of ESG issues, investors may believe this translates to a poor ESG performance by the company. Therefore, it is important to consider the role of IROs, sustainability managers, and top management in the ESG communication process, as it may impact how successfully messages are communicated.

2.2 Knowledge transfer

The previous section emphasized that the main function of the practice of investor relations is fostering a full appreciation of the company's business activities, so that both investors and companies can form a mutual understanding of the company's value. As ESG is a fairly new area of knowledge in the practice of investor relations, through knowledge transfer theories the present thesis aims to build an understanding of how a full appreciation and mutual understanding of ESG can be achieved. Developing a full appreciation of the company's stock essentially requires knowledge transfer between internal and external stakeholders. Therefore, section 2.2 will examine knowledge transfer theories in order to build an understanding of how these theories could be applied to communicating ESG. After a general interoduction to knowledge transfer and illustrating its connection to ESG communication, sub-section 2.2.1 will specifically examine Ringberg & Reihlen's (2008) Socio-cognitive model of knowledge transfer. After this, in section 2.2.2 the negotiated knowledge transfer process proposed by the Socio-cognitive model will be applied to the process of communicating ESG to mainstream investors.

The process of knowledge transfer is more complex than the transfer of information, which can often be done using less interactive means of communication (Harada, 2003; Università della Svizzerra Italiana & University of St. Gallen, n.d.). The transfer of knowledge by means of communication requires conveying insights, skills or experiences which cannot be communicated as easily as facts or figures (Università della Svizzerra Italiana & University of St. Gallen, n.d.). Ringberg & Reihlen (2008, p. 919) argue that critical to knowledge transfer are the interpretations made by people; for example two people with the same education, training and profession may conceptualize similar events completely differently. Therefore, one can imagine the challenges of transferring knowledge between people with completely different knowledge bases. Eppler (2007, p. 292), for example, discusses knowledge communication between experts and managers noting that this process requires a high-level of two-way interaction between decision makers and experts because both parties have a limited understanding of an issue and consequently can only gain a complete comprehension by aligning their mental models.

However, the use of knowledge transfer theories has certain limitations. Namely, the theories aim to examine a phenomenon that can perhaps never objectively be studied. One could argue that it is never possible to truly study what occurs within a person's mind (Rouse & Morris, 1986) and to identify the different factors that have affected the outcome of processing knowledge and information (see Szulanski, 2000). However, knowledge transfer theories can help understand how knowledge can be communicated more effectively, i.e. they provide insight into how different parties process and understand knowledge in different ways due to diverging mental models and how these mental models can be aligned.

The reason that knowledge transfer theories are particularly relevant to ESG communication is that the communication of ESG is primarily the communication of *knowledge,* which requires the conveyance of "context, background and basic assumptions" (Eppler, 2006, p. 3). For example, when companies communicate carbon dioxide emissions there may be underlying assumptions that 1) carbon dioxide is harmful for the environment 2) carbon dioxide emissions may have financial implications if companies need to purchase carbon credits. These characteristics of knowledge separate it from *information,* which is regarded as facts, figures, events and developments. Furthermore, knowledge is also separated from information based on "how" it is communicated – interactively, collaboratively and iteratively (Eppler, 2004, p. 23). As discussed in section 2.1, a two-way model of communication is a key element of the investor relations (IR) discipline, as IR is moving away from a one-way communication model towards relationship management. The role of interaction and dialogue in particular, will be examined more closely.

It could be argued, that currently ESG communication is equated with communicating information because as Hockerts & Moir (2004) found, current communication practices between companies and investors make limited use of one-on-one meetings. As discussed above, this one-way approach assumes that knowledge can be transferred without interference of a person's private or cultural mental models (Ringberg & Reihlen, 2008, p. 914). As Dawkins (2004) notes, companies have failed to tailor their messages to different stakeholder groups. This is arguably a "one size fits all" approach, implying that companies assume that the information presented is not subject to individual interpretations.

However, the current approach to ESG communication seems to have failed to popularize the integration of ESG into mainstream investor decision making; as Sullivan (2011, p. 2) argues, the ESG movement still has not met a critical mass. The reason for this seems to be that mainstream investors do not view ESG issues as material to business performance (Dawkins, 2004, pp. 111–112). Ringberg & Reihlen (2008, p. 917) discuss the immense amount of pre-existing knowledge both parties must have in order for knowledge to be transferred in the intended manner. Without a sufficient knowledge base and relevant mental models, the transfer of knowledge will be meaningless. As to ESG communication, Dawkins (2004) and Ringberg & Reihlen (2008) suggest that both parties should understand the *relevance* of this information, in order for the messages to be effectively received and correctly interpreted.

In sum, the present thesis argues that current popular one-way communication models applied to when communicating ESG with mainstream investors fail to account for the fact that individuals have unique private and cultural mental models, which cause them to interpret information differently. Therefore, knowledge management theories will be examined to understand how these differences can be mediated.

2.2.1 Socio-Cognitive model of knowledge transfer

The present sub-section introduces Ringberg & Reihlen's Socio-cognitive model of knowledge transfer, which forms the basis of the theoretical framework which will be presented in section 2.3. After introducing the framework the three phases of the model will be discussed:

- Phase 1: Cultural and private mental models
- Phase 2: Categorical and reflective processing
- Phase 3: Knowledge transfer and outcomes

Ringberg & Reihlen (2008, pp. 912 and 919) challenge the positivist and social constructionist approaches to knowledge transfer that assume that knowledge can be transferred either through instructions, where little interpretation is performed by the mind, or through social activities overlooking much of the interpretive work performed by the individual. Instead, they argue that "decoding of information into meaningful knowledge is always mediated by people's private and cultural models, which are created from the unique combination of their cognitive dispositions" (Ringberg & Reihlen, 2008, p. 912). Ringberg & Reihlen (2008, pp. 919 – 920) note that even individuals with a similar education background and training that engage in the same practices, may produce different conceptualizations of a given phenomenon or activity as a result of their personal or cultural models. For example, two investors may make completely different investment decisions based on the same information because their existing mental models lead them to interpret information differently.

Ringberg & Reihlen (2008, p. 914) propose a Socio-cognitive model of knowledge transfer, which accounts for "various explicit and tacit knowledge outcomes as originating from the interaction between people's private and cultural models, need for cognitive (i.e. categorical and/or reflective processing), and environmental feedback". The Socio-cognitive model has four major elements (see Figure 2 below). It shows how existing personal and/or cultural models (called "cognitive context) are applied to the "cognitive process", which

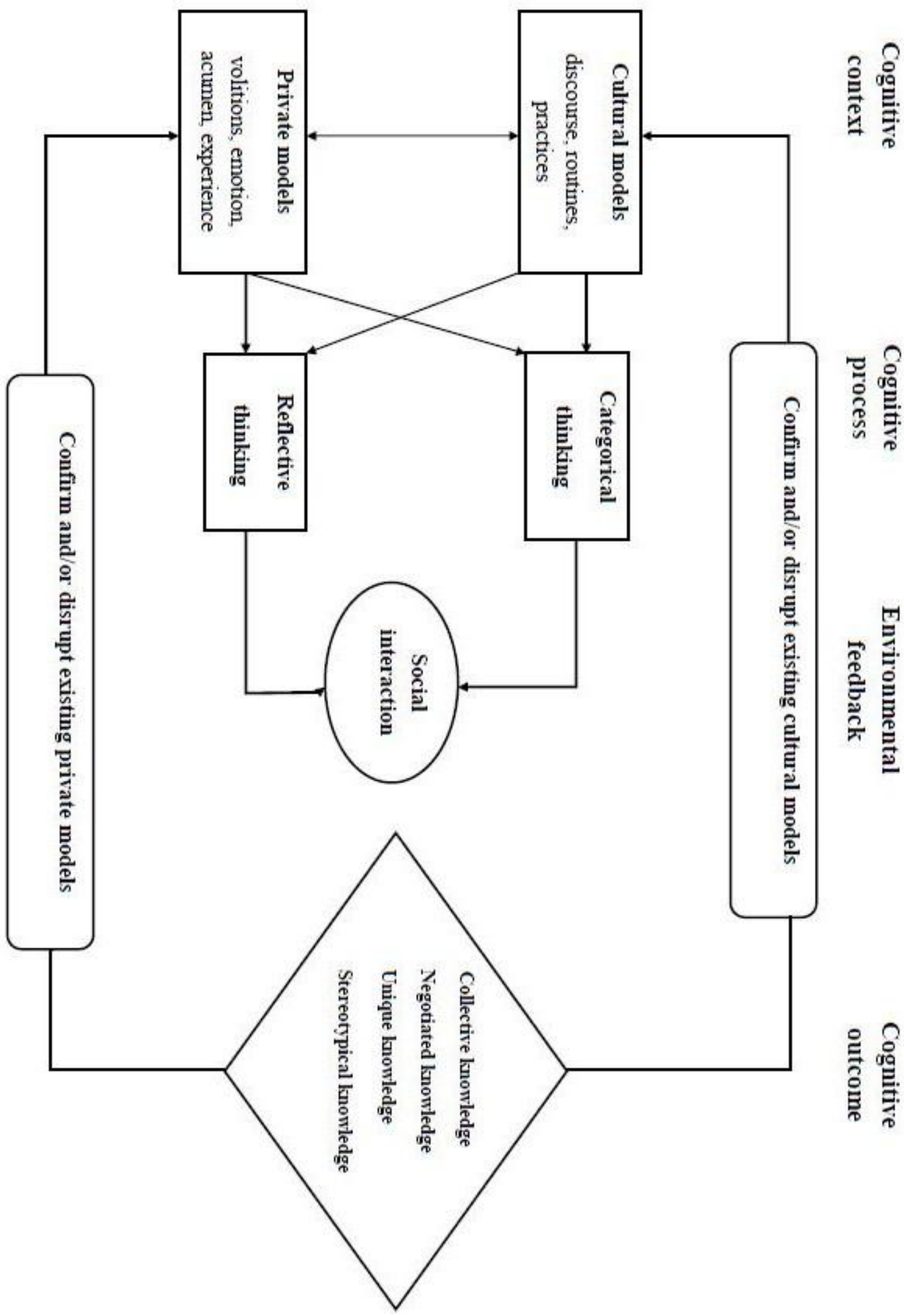


Figure 2 Ringberg & Reihlen's (2008) Socio-cognitive model of knowledge transfer

involves either reflective or categorical processing of information. The existing understanding of information can then be updated through the social context called "environmental feedback". The outcome of this knowledge transfer process is one of four major scenarios: negotiated, collective, unique, and stereotypical knowledge production (Ringberg & Reihlen, 2008, p. 914). The Socio-cognitive model emphasizes that the outcome of knowledge transfer is determined by how individuals process information and how this information processing is influenced by environmental feedback (Ringberg & Reihlen, 2008, p. 921).

Therefore, Ringberg & Reihlen (2008) present a framework which combines both positivist and social-constructionist approaches to knowledge transfer. Positivist theories assume that knowledge can be transferred without disruption from the mind, meaning that two individuals can unproblematically transfer knowledge between each other regardless of their personal backgrounds and existing mental models. Socio-constructionists on the other hand, believe that knowledge and information is always created in a social context and subject to individual interpretation (Ringberg & Reihlen, 2008, p. 922; Crane, 1999, p. 241). However, as previously mentioned, it remains challenging to objectively study how knowledge is processed in the minds of individuals (Rouse & Morris, 1986).

Much of the more recent literature in knowledge transfer and management are aligned with Ringberg & Reihlen's theory as they recognize the role that individual and cultural models have in achieving successful knowledge transfer. Jameson (2007, p. 207) defines cultural models as part of a person's collective identity, i.e. the sense of self derived from membership in groups. The second component of collective identity derives from social identity, which concern the roles people play in the present. Jameson (2007, p. 207) provides an example of an unemployed person. While a person is unemployed they may not identify themselves as a part of the unemployed; it is merely a social identity projected by others. However, in line with Ringberg & Reihlen's framework (2008) collective identity is referred to simply as cultural identity.

Private models one the other hand are influenced by factors such as personality and character (Jameson, 2007, p. 207). Ringberg & Reihlen (2008) believe that both private and cultural models have an impact on the way individuals process knowledge.

The Socio-cognitive model also emphasizes the role of environmental feedback, in either "confirming or disrupting" existing cultural models, which impact the way we interpret knowledge. With environmental feedback, Ringberg & Reihlen (2008, p. 293) refer to for example, social interaction, practice, media and literature. The significance of discourse and interaction in knowledge transfer and communication has been widely discussed by for example Eppler (2007), McDermott (1998), Mengis & Eppler (2008) Oswick, Anthony, Keenoy, Mangham, Iain, & Grant (2000) and Yakhlef (2007). Yakhlef (2007, p. 48) identifies two types of interaction: participation and reification. Reified elements include statistics, budgets, documents, standards, which require little interpretation. Participation involves "boundary brokers" who may "accompany such reified artifacts and engage in face-to-face interactions with members of another community". The role of discourse and interaction will be discussed in more detail in sub-section 2.2.2.

The Socio-cognitive model to knowledge transfer seems highly applicable to the practice of investor relations, particularly in relation to ESG. According to the model, e.g. an investor's professional background will have an impact on the type of information they consider relevant and to how they process this information. The model consists of three phases, presented below:

Phase 1: Cultural and private models

In the first phase of the Socio-cognitive framework, the private and cultural models of individuals are considered. Individuals use a set of cultural models to organize the way they make sense of the world (Ringberg & Reihlen, 2008, p. 921). Each individual belongs to a set of subsets of cultural thought communities, which are characterized by a dominant cultural model that provides certain assumptions and outlook on the world (ibid.). As discussed in Chapter 1, Jameson (2007) notes, that traditionally culture in the context of business communication has been predominantly defined by nationality. Jameson (2007) believes that people's cultures are also defined by factors such as class, vocation, religion, gender or other components. These cultural models become internalized through everyday experiences and influence a person's world view and how they react and interpret other people, information, and situations (Ringberg & Reihlen, 2008, p. 921).

Investors, for example, can be considered to belong to an "investor community"; Dawkins (2004, pp. 111–112) argues that based on dominant cultural models of investors the relevance of ESG information, for example, is assessed based on how it impacts the "bottom line" (i.e. financial performance) of a company (Dawkins, 2004, p. 112). These assumptions and outlooks will have an influence on how important they regard a company's communication on ESG. While in the present thesis the primary focus is on culture as defined by vocation, the author recognizes that by privileging vocation many other important determinants of culture, such as gender and nationality, are potentially overlooked. Furthermore, collective culture (e.g. gender, vocation, education and nationality) are only one element of culture as private culture is also plays an important part in defining a person's self-identity (Jameson, 2007, p. 207). When possible, culture is examined from a broader perspective; however, Jameson (2007, p. 206) notes that in the context of international business communication vocational culture is a central consideration.

Ringberg & Reihlen (2008, p. 921) argue that these existing cultural models are interpreted by private mental models. These private models originate from a person's combination of existing cultural models and unique cognitive disposition, such as reflection critical thinking and memory (*ibid.*). The authors note that there is no sharp distinction between where the use of a cultural model ends and the application of a private model begins (p. 922). Therefore it is difficult to distinguish between the two.

According to Ringberg & Reihlen (2008, p. 922), the purpose of private and cultural models is to help individuals organize events and to free cognitive resources for processing unfamiliar issues and experiences. It can be assumed, therefore, that an investor who assumes that ESG is not linked to company performance will automatically disregard information on ESG due to their existing cognitive models. Therefore, in such a situation, communicating ESG would emphasize arguing the business benefits of ESG.

Phase 2: Categorical and reflective processing

Ringberg & Reihlen (2008, p. 922) identify two different approaches to information processing by an individual: categorical and reflective thinking. In categorical thinking existing personal and cultural mental models are used to assign meaning to incoming stimuli. Categorical thinking is often applied in everyday routines or when an individual is pressured to make a quick decision. The categorical approach to information processing is highly automated and therefore resistant to updating (*ibid*). Reflective processing is characterized by a high level of cognitive responsiveness, where an individual extends or combines existing cultural and private mental models in a thoughtful manner to improve sense-making in situations where existing private and/or cultural models cannot easily be applied (Ringberg & Reihlen, 2008, pp. 922 – 923).

Ringberg & Reihlen (2008, p. 923) argue that successful knowledge transfer relies on an individual's ability to apply relevant cultural and private mental models and to identify situations where existing models are insufficient, leading to reflective thinking which is an active way of processing information. The authors argue that information that has originally been processed with reflective thinking, once mastered, may lead to a recombination of exiting mental models to creation of new models. Therefore, similar information can later be assigned to categorical processing, a more automated form of information processing, in order to free up a person's cognitive capacity in order to be more receptive to environmental feedback (Ringberg & Reihlen, 2008, pp. 922 – 923).

Phase 3: Knowledge transfer and outcomes

Phase 3 of the Socio-cognitive framework considers the knowledge transfer process and possible outcomes. Ringberg & Reihlen (2008, p. 923) argue that the interaction between reflective/categorical thinking processes and level of environmental feedback makes knowledge transfer a complex phenomenon and its outcome cannot be predicted. This diverges from traditional social constructionist models, which assume that shared practices, experiences and training lead to a shared social reality, independent of a person's personal cognition (p. 923). Socio-cognitive outcomes have four different categories which are dependent on the level of social interaction (high/low) and whether categorical thinking or reflective thinking is employed (Ringberg & Reihlen, 2008, p. 924). The four possible outcomes of knowledge transfer are: unique knowledge, stereotypical knowledge, negotiated knowledge and collective knowledge.

Unique knowledge is characterized by social isolation. Individuals who engage in unique knowledge transfer typically exercise a high level of reflective thinking but rely on unique combinations of private and cultural models that differ from socially accepted norms (Ringberg & Reihlen, 2008, p. 926). Individuals that engage in this type of knowledge process often come up with unique ideas (*ibid*).

The second form of knowledge transfer outcomes is **stereotypical knowledge**. In this knowledge transfer process, individuals rely on categorical thinking in an automatic and unreflective fashion (Ringberg & Reihlen, 2008, p. 926). Stereotypical knowledge transfer is typical in bureaucratic and high-routine processes (ibid). In stereotypical knowledge transfer there is little updating of mental models (Ringberg & Reihlen, 2008, p. 927). The stereotypical knowledge transfer processes is the only one out of the four described processes where people rely on highly uniform cultural models. Therefore, the positivist assumption that knowledge transfer is anchored in objectified texts and protocols or social-constructionist assumption that knowledge can be transferred by discourse is possible within this model (p. 927).

The **negotiated knowledge** transfer process is characterized by high social interaction as well as reflective thinking (Ringberg & Reihlen, 2008, p. 924). Both participants are aware of their conceptual discrepancies, resulting from divergent mental models, and both are interested in resolving them. Negotiated knowledge transfer is typical in organizations where interaction is required across disciples and specializations, and tacit knowledge must be made transparent (Ringberg & Reihlen, 2008, p. 924). This is the knowledge transfer process, which is arguably most in line with what the current state of ESG communication could strive for. The negotiated knowledge process in the ESG context will be discussed in the next section.

As with negotiated knowledge transfer, the **collective knowledge transfer** process is characterized with a high level of social interaction. However, in this process knowledge transfer relies categorical thinking where shared cultural models which have emerged from widely shared experience, education and training. Collective knowledge transfer typically emerges among people who engage in repeated routines (Ringberg & Reihlen, 2008, p. 925).

While Ringberg & Reihlen (2008) manage to identify how different factors impact the different types of processes and outcomes of knowledge transfer, all four scenarios rest upon the assumption that the knowledge transfer process is largely unproblematic. However, as Szulanski (2000) notes, this is seldom the case and the process of knowledge transfer can be impeded by what Szulanski describes as "stickiness". For example, the receiving end of the knowledge transfer process may be less willing to absorb new information if he/she does not view the source as reliable and trustworthy (Szuanski, 2000, p. 14). Furthermore, factors such as motivation, quality of personal relationships, and organizational context may also impact the success of knowledge transfer (Szulanski, 2000, p. 23; see also Eppler, 2004). Such factors may consequently compromise the willingness of the conversers to align mental models. Therefore, this author recognizes that the Socio-cognitive model of knowledge transfer may be over simplified and therefore in practice there may be impediments to knowledge transfer not accounted for by the model. However, while these factors deserve more attention and should be acknowledged, they are largely beyond the scope of this thesis.

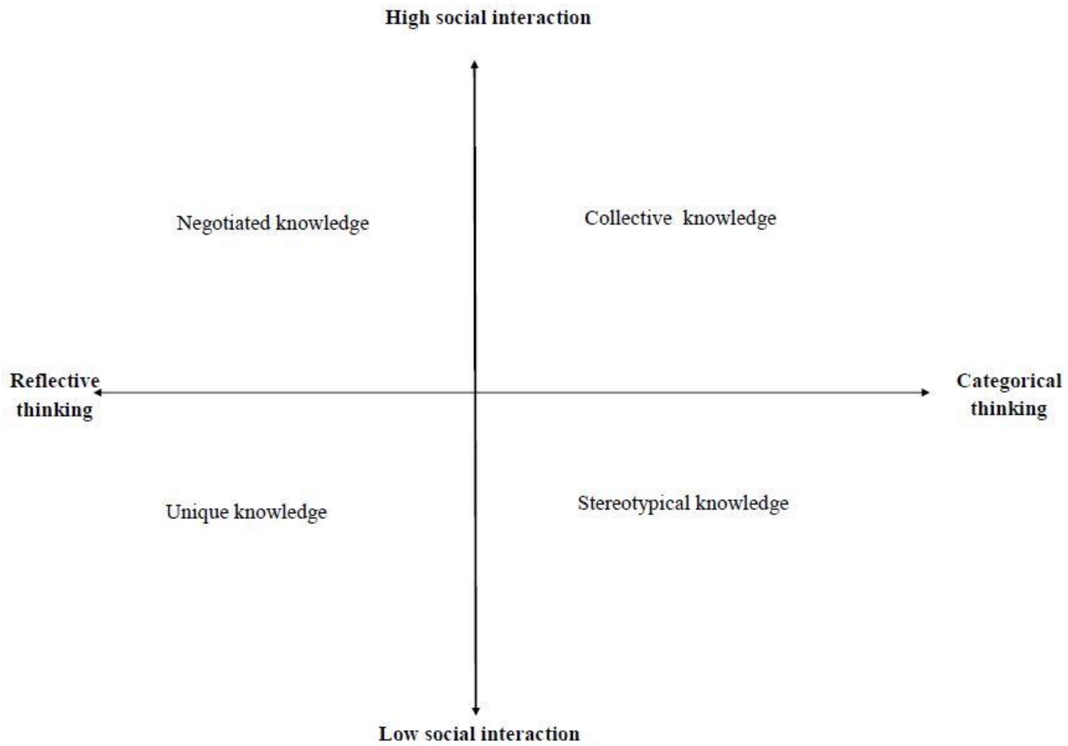


Figure 3 Outcomes of knowledge transfer (Ringberg & Reihlen, 2008, p. 924)

In sum, knowledge transfer theories examine the transfer of knowledge between two entities. Essentially IR, and specifically ESG communication, can be seen as a process of knowledge transfer between companies and investors, which is why it is important to understand how successful knowledge transfer can be achieved. As Ringberg & Reihlen (2008, p. 921) argue, the knowledge transfer process is impacted by the private and cultural mental models of individuals, i.e. two individuals may interpret information in completely different ways. Furthermore, the knowledge transfer process is impacted by how actively an individual attempts to process and assign meaning to the incoming stimuli (Ringberg & Reihlen, 2008, p. 922). According to Ringberg & Reihlen (2008), coupled with the level of social interaction involved the application of categorical or reflective thinking will determine the outcome of the knowledge transfer process. The present thesis argues that the negotiated knowledge transfer process is most applicable to the communication of ESG, which will be further examined in sub-section 2.2.2.

2.2.2 ESG communication as a negotiated knowledge transfer process

The present sub- section will examine how the negotiated knowledge transfer process (one possible outcome of the knowledge transfer process) could be applied to ESG communication process between companies and investors in order to achieve the alignment of mental models. The present sub-section 2.2.2 will especially focus on the role dialogue – which is considered an important tool in the investor relations practice – has in negotiating knowledge. Finally, the role of investor relations officers as gatekeepers (see Harada, 2003) – who are responsible for the smooth flow of information both within and across organizational boundaries – will be considered.

Ringberg & Reihlen (2008, p. 928) argue that "to match knowledge transfer processes with desired meaning outcomes, managers need to be trained to identify and coordinate people's cognitive dispositions (reflective, categorical) and required level of social interaction (i.e. updating) with the type (level, complexity) of knowledge transfer that is required for an efficient operation under a given environmental condition" (Ringberg & Reihlen, 2008, p. 928). In the case of communicating ESG, this implies that it is important for companies to identify the knowledge transfer process most applicable for the communication of ESG.

As discussed in Chapter 1, past studies (e.g. Amaeshi & Grayson, 2010; WBCSD & UNEP FI 2010), indicate that the mental models of investors and company representatives are not aligned. When it comes to ESG, one could argue that investors and companies are talking a different language because they apply ESG to their existing personal and cultural cognitive cultural models, which appear not to be shared.

Therefore, unlike the current practice of treating ESG as information that can be communicated through a one-way practice (see Hockerts & Moir, 2004), a negotiated knowledge transfer process might be the framework which could be applied to the act of communicating ESG to investors in order to reach a mutual understanding of ESG issues.

To develop a mutual understanding, environmental feedback e.g. social interaction, plays a key role in the investor relations process and in aligning the private and cultural models of investors and companies. In order for knowledge to be communicated successfully, both parties must be aware of each other's coding systems (Harada, 2003), which Ringberg & Reihlen (2008) refer to as private and cultural mental models. A lack of a common mental models, or failure to recognize differences, may lead to misinterpretation or incomplete understanding of the message (Harada, 2003, p. 1739). Therefore it can be considered important that in a communicative situation the sender and receiver are aware of each other's mental models. However, Jameson (2007, p. 201) draws attention to the fact that "people have less access to knowledge about others' complex cultural makeup than about their own". As a consequence it can be argued that neither party in a communicative situation can be fully aware of the other's private and cultural mental models. Nonetheless, developing an awareness of each others' cultural models (to the extent it is possible) can be considered important in the process of developing a mutual understanding of ESG.

Ringberg & Reihlen (2008, p. 924) stress that negotiated knowledge transfer is typical in organizations where interaction is required across disciples and specializations. This is descriptive of ESG communication between companies and investors. As was previously noted, the IR discipline combines financial, legal and marketing/communication knowledge (NIRI, n.d.). Therefore, ESG represents an entirely new field of knowledge, and specialization, which both companies and investors must interpret and learn to draw conclusions from. Through a conscious effort, a high level social interaction, and by engaging in reflective thinking process, the cognitive models of companies and the investment community can be aligned to ensure a mutual understanding.

One of the most important tools for negotiating, i.e. disrupting and confirming, existing mental models, is environmental feedback; one form of environmental feedback is dialogue. Eppler (2007, p. 292) defines dialogues through the communication of knowledge, as “synchronous [real-time interactions, which are often face-to-face] knowledge communication, stressing the interactive and collaborative style of knowledge exchange in this communication mode” (Eppler, 2007, p. 292).

Mengis & Eppler (2008, p. 1306) argue that it is primarily through dialogue that members of organizations share, integrate, and create knowledge. Mengis & Eppler (2008, p. 1291) define dialogues as “a specific form of conversation in which conversers collectively aim to open up problems into multiple perspectives in order to explore the whole among the parts and the connections between the parts. In dialogue, conversers combine inquiry (i.e. inquiry of the underlying assumptions of statements) with disclosure and aim to learn about a problem involving all dialogue partners and to create a shared meaning among many”. In other words, conversers aim to recognize each other’s underlying assumptions (that stem from pre-existing cultural models) so that through two-way communication, they can reach a shared understanding. In communicating ESG for example, this might mean that investors recognize their possible skepticism of the business benefits of ESG. Through dialogue investors aim to understand why companies believe in the business benefits of ESG and companies in turn aim to understand the source of investor skepticism. By recognizing the differences in their underlying assumptions, investors and companies can then begin to reach a shared understanding of the business benefits of ESG.

Oswick, Anthony, Keenoy, Mangham, Iain, & Grant (2000) to a large extent share Mengis & Eppler’s (2008) understanding of dialogue, and view dialogue as the most important tool of organizational learning. Through dialogue, Oswick et al. (2000, p. 900) believe that members of organizations can undermine dominant understandings of "organizational reality" and move towards a more complex and multifaceted understanding of the organization. However, unlike Mengis & Eppler (2008) it seems that Oswick et al (2000) are not adamant of reaching *one* shared understanding through dialogue, but leave space for members of organizations to construct a pluralistic understanding of issues. In other words, based on Oswick et al.'s (2000) reasoning, developing a mutual understanding of how ESG impacts financial performance is not a necessary outcome, but according to Oswick et al. having divergent understandings of how ESG is relevant would be considered acceptable. In the case of IR, however, this author questions whether Oswick et al.'s (2000) views are applicable, as by definition the aim of IR is to reach a fair valuation of a company's share price. This fair valuation cannot be achieved without first reaching a mutual understanding of factors affecting a company's share price. Therefore, while Oswick et al.'s (2000) approach may be applicable in other situations, it is arguably not suited for this thesis.

Eppler (2007, p. 291) notes that "knowledge communication has taken place when an insight, experience or skill has been successfully *reconstructed* [emphasis added] by an individual because of the communicative actions of another". Eppler's (2007) definition of knowledge communication, is closely aligned with Ringberg & Reihlen's (2008) notion of environmental feedback, which serves the purpose of potentially disrupting existing mental models in order to align one's mental model with a cognitive schema required to interpret new knowledge.

Eppler's (2007) and Ringberg & Reihlen's (2008) arguments that through dialogue individual mental models are reconstructed is supported by Yakhlef (2007). Yakhlef (2007) argues that in order to successfully transfer knowledge, the recipient's context must be transformed and not merely adapted to suit the new knowledge. Yakhlef (2007, p. 47) argues that context can be transformed through interaction, translation, negotiation and bargaining processes. Yakhlef (2007, p. 44) believes that the communication driven approach to knowledge transfer is problematic, because it assumes that messages can be communicated unproblematically from sender to receiver. Rather Yakhlef (2007, p. 48) views knowledge transfer as a process where the individuals engage in social interaction, e.g. translation, negotiation and bargaining, in order to produce a shared social context. Mengis & Eppler (2008, p. 1291) suggest that individuals create a shared understanding (i.e. social context) through dialogue, implying that translation takes place. Therefore, it seems that the translation phase is part of the communication process.

According to Yakhlef (2007, p. 48), the translation of knowledge between two different contexts is achieved by "boundary brokers, who help interpret and translate reified data (e.g. data, manuals, statistics)". Boundary brokers are also referred to as gatekeepers (Harada, 2003). One of the main functions of gatekeepers is that of translation, or framing the elements of one group's world-view in terms of another group's world view (Yakhlef, 2007, p. 48). For example, in an ESG communication context, IROs could be considered to be gatekeepers between the investment community and the company. IROs can translate ESG issues in a manner that make ESG relevant to investors by, for example, emphasizing the business case. IROs can then translate messages by the investment community so that they can feed these messages back to company managers.

Harada (2003) also discusses the role of gatekeepers in ensuring a smooth flow of information both within organizations and across organizational boundaries. Gatekeepers are one way to deal with communicating simultaneously both across and within an organization as they are capable of translating diverging mental models (Harada, 2003, 1969). Gatekeepers also have strong ties to both internal and external constituents (p. 1973). Again, IROs are good examples as according to e.g. Gitman, Chorn & Fargo (2009) and Hockerts & Moir (2004) they serve as a link both between management and sustainability managers as well as the investment community. According to Harada (2003, p. 1973) gatekeepers first gather and understand external knowledge, and then translate this information to match the mental schemes of organizational members. Therefore, the role of gatekeepers is threefold: outside information search, translation of different coding schemes, and internal communication (Harada, 2003, p. 1739).

To summarize section 2.2, the process of knowledge transfer can be described as more complex than the transfer of information (Universitàdella svizzerra Italiana & University of St. Gallen, n.d.). According to Ringberg & Reihlen's (2008, pp. 921 – 922) Socio-cognitive model of knowledge transfer, this process is affected by the private and cultural mental models of individuals, which can lead to individuals interpreting information in different ways. While, the present author recognizes the importance of private mental models and other factors shaping the culture of individuals (see Jameson, 2007), the primary focus of the present thesis is on cultural mental models as defined by vocation. Furthermore the outcome of the knowledge transfer process is also influenced by how consciously an individual interprets information (i.e. reflective vs. categorical thinking) as well as the level of social interaction between individuals. Out of the four possible outcomes of knowledge transfer, the present thesis argues that the negotiated knowledge transfer process is the most applicable to the process of communicating ESG between investors and companies. Dialogue in particular can be seen as a form of environmental feedback that can be used to reconstruct mental models if needed.

2.3 Towards a theoretical framework of communicating ESG to mainstream investors

Section 2.3 presents the research framework of the present study. The framework (presented in Figure 4) synthesizes the key concepts of this study, namely investor relations and knowledge transfer (particularly the negotiated knowledge transfer process, as introduced by Ringberg & Reihlen (2008), and identifies how these concepts can be brought together in the context of communicating ESG to investors.

Thus far, Chapter 2 has examined theories of investor relations and knowledge transfer. An examination of these theories has shown that the practice of investor relations shares several similarities with knowledge transfer theories. The practice of investor relations is essentially moving from pure financial reporting (i.e. communicating information) towards relationship management (i.e. a two-way model of communication with the aim of fostering a mutual understanding) (Laskin, 2009, p. 213). Through dialogue, the organization and the investment community aim to achieve a “fair valuation” of a company’s share price (NIRI, n.d.). This means that investors must have a “full appreciation” of the company’s business activities (IR society, 2012). Achieving this full appreciation often requires dialogue between institutional investors and the corporate investor relations officer (IRO) so that both parties can build a “mutual understanding” of the company’s activities (Kelly et al., 2010, p. 204). In other words, through dialogue investors and IROs are engaging in a negotiated knowledge transfer process where dialogue is used by investors and companies in an attempt to reach a mutual understanding – or fair valuation – of the company’s market value (Ringberg & Reihlen, 2008). Therefore, through dialogue companies may establish a mutual understanding of how ESG influences this fair value.

Next, sub-sections 2.31 – 2.3.4 will present a series of steps in the framework proposed in the present study will be presented. It is worth noting that the transitions between these steps are not easily identified, and to some extent they may occur simultaneously. These steps are:

1) Identifying private and cultural mental models of investors
2) Assigning an organizational gatekeeper
3) Engaging in social interaction with investors
4) Reaching a negotiated understanding of ESG

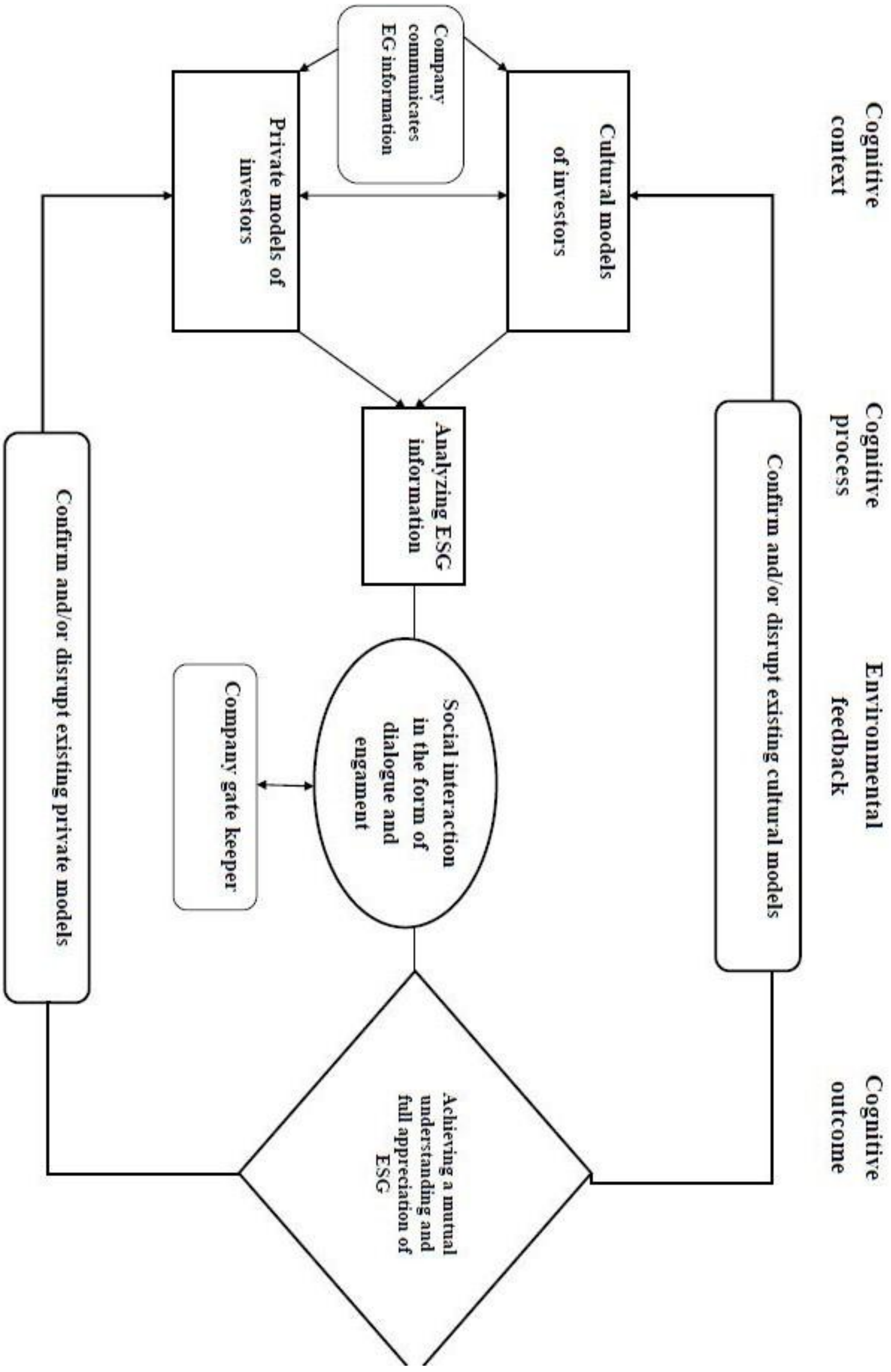


Figure 4 Reaching negotiated knowledge in the process of communicating ESG (environment, social and governance)

2.3.1 Identifying Private and Cultural models of investors

When first initiating the knowledge transfer process, both the sender and receiver should attempt to understand the other party's mental models. Jameson (2007, p.1) notes, that traditionally culture in the context of business communication has been predominantly defined by nationality. However, this theoretical framework focuses on the role of cultural models defined by vocation in the knowledge transfer process. The assumptions and outlooks derived from these cultural mental models will have an influence on how important they regard a company's communication on ESG. For example, as a result of their vocational culture institutional investors are believed to assess ESG based on its potential financial benefits for business (Dawkins, 2004, p. 112).

However, collective culture (e.g. gender, vocation, education and nationality) are only one element of culture as private mental models also play an important role in the knowledge transfer process (Jameson, 2007, p. 207; Ringberg & Reihlen, 2008, p. 921). Existing cultural models are interpreted by private mental models *(ibid).* When possible, culture is examined from a broader perspective, however, Jameson (2007, p. 206) notes that in the context of international business communication vocational culture is a central consideration.

Ringberg & Rehlen (2008, p. 922) note that there is no sharp distinction between where the use of a cultural model ends and the application of a private model begins (p. 922). However, when possible, the present thesis will attempt to distinguish between the two.

2.3.2 Assigning an organizational gatekeeper

After attempting to recognize prevailing mental models, the second step is to assign a gatekeeper so that the company can begin to prepare for communicating with investors with the objective of achieving a mutual understanding (Kelly et al., 2010, p. 204) and full appreciation (IR society, 2012) of the company's IR activities. Yakhlef's (2007) and Harada's (2003) studies suggest, that communication with investors is most effective when undertaken by a gatekeeper.

The responsibility of the gatekeeper is to translate ESG from one group's mental models (i.e. the organization) to meet the understanding of the other group (i.e. the investment community) (Yakhlef, 2007, p. 48; Harada, 2003, p. 1969). In terms of communicating ESG to mainstream investors, the role of a gatekeeper is perhaps most appropriately assigned to the IRO, as they play an important role of changing the "views and behaviors of management" as well as changing the attitudes and behaviors of the financial public (Kelly et. al, 2010, pp. 199 – 200). This implies that in terms of the "traditional" IR process, IROs have already assumed the role of a gatekeeper by 1) translating the views of organizations to meet the needs of institutional investors, while simultaneously attempting to influence investor views of the company; and by 2) translating the views of the investment community to meet the organizational context, while simultaneously attempting to shape the mental models of management.

2.3.3. Engaging in social interaction with investors

Once a gatekeeper has been assigned, the next step is to initiate social interaction between institutional investors and the company, or specifically the gatekeeper. As has been established in the preceding sections, knowledge transfer theories can be applied to the two-way communication model of investor relations. The two parties attempt to create a mutual understanding of issues through social interaction, such as face-to-face meetings (Kelly, et al. 2010; Marston, 2008). Laskin (2009, p. 224) even mentions, that IROs attempt to educate investors regarding the company's value creation model.

Ringberg & Reihlen (2008, p. 923) note, that environmental feedback (e.g. interaction and dialogue) plays a key role in either confirming or disrupting pre-existing private and cultural mental models. Therefore, IROs acting as gatekeepers have a key role in engaging in active dialogue with investors with the objective of disrupting current mental frameworks that fail to recognize the financial materiality of ESG performance. As was previously mentioned, meetings with analysts and investors are generally considered one of the most important elements of investor relations and they play a key role in facilitating two-way communications and dialogue (Marston, 2008; Mars, Virtanen & Virtanen, 2000; Roberts, Sanderson, Baker & Hendry, 2006).

Rogers (2000, p. 456) found that in CEO presentations, for example, "nonfinancial" information received the most coverage. Rogers (2000, p. 456) speculates that this is due to the opportunity for explanation, which is "necessary" with this type of information. Rogers (2000, p. 456) therefore seems to imply that nonfinancial information requires active interpretation (i.e. "reflective thinking") and is therefore shaped by pre-existing mental schema. Hence, one-on-one meetings provide a good opportunity for CEOs (i.e. companies) to attempt to negotiate any discrepancies between corporate and investor mental models. Mengis & Eppler (2008, p. 1291), note that via dialogue conversers aim to recognize each other's underlying assumptions (that stem from pre-existing cultural models) so that through two-way communication, they can reach a shared understanding. As ESG performance is largely non-financial data, which cannot be packaged into comparable numbers, active interaction can aid in negotiating a common understanding of the underlying assumptions and interpretation of this type of data.

2.3.4. Reaching a negotiated understanding of ESG

Eppler (2007, p. 291) and Ringberg & Reihlen (2008) note, that knowledge transfer has been successful when participants have reconstructed their pre-existing mental models to reach a shared understanding of underlying assumptions. It is worth noting, that forming a shared understanding may also require companies to restructure their pre-existing mental models. In practice this means that gatekeepers feed back the sentiments of institutional investors to the company. Therefore, if through dialogue both investors and companies have reconstructed or confirmed their mental models in a manner that allows them to reach a "mutual" understanding of the relevance of ESG data. If investors over time integrate these factors into the investment decisions, it can be assumed that the knowledge transfer process has been successful.

However, as noted in section 2.2.1 the knowledge transfer process in practice may in reality be impeded by several factors, which Szulanski (2000) identifies as "stickiness". Such factors include motivation of the sender and recipient. As suggested by e.g. Roberts et al. (2006), the communication process between investors and companies is also characterized by power relationships, where investors may utilize their power to influence the decisions of management. It is important to acknowledge that this power dynamic may also have implications for the knowledge transfer process (see Sharma, 1997, pp. 788–789 and Zhu, 2004, pp. 70–71). Zhu (2004, pp. 70–71), for example, notes that many knowledge transfer theories stress that knowledge transfer does not occur in a vacuum and that power relationships impact the process and outcomes.

To conclude, the purpose of Chapter 2 is to review literature is to develop an understanding of how knowledge transfer theories can be applied to the communication of ESG to institutional investors. First, in section 2.1 the present study turned to theories of investor relations, which highlight the importance of two-way communication (e.g. dialogue) in achieving a mutual understanding between investors and companies regarding a company's share price. Then, current practices of communicating ESG to investors were considered and based on IR theories, it was suggested that further integrating dialogue into the communication of ESG could be beneficial, in order for companies and investors to reach a mutual understanding of ESG.

The aim of investor relations to reach a mutual understanding between two parties can be considered characteristic of the knowledge transfer process. Therefore, in section 2.2 theories of knowledge transfer were discussed. Specifically, Ringberg & Reihlen's Socio-cognitive framework was reviewed. The framework presented section 2.3 seeks to demonstrate the interrelations between the negotiated knowledge transfer process as proposed by Ringberg & Reihlen (2008) and investor relations theories, in the context of ESG communication between companies and institutional investors. The framework emphasizes the role that cultural and private mental models, information processing, and social interaction (often mediated by a gatekeeper) have in achieving a mutual understanding and full appreciation of ESG.

1. METHODOLOGY

The present Chapter discusses the research design of the study and justifies the methods used to gather data. Section 3.1 explains and justified the use of semi-structured interviews and analysis of archival data as methods to gather data, while acknowledging the challenges of gaining access to an individual's mental models (see Rouse and Morris, 1986); the profile of the interviewees is also discussed. Section 3.2 describes data analysis. Finally, section 3.3 evaluates the quality of the study.

3.1 Research methodology

The present section describes the methods used in the study. The study used a qualitative approach utilizing élite interviews (Gillham, 2005), i.e. interviews among mainstream investors knowledgeable about integrating ESG into the investment process. The interviews were semi-structured and were complemented by archival data. The interview design will be discussed in sub-section 3.1.1. Sub-section 3.1.2 introduces the profiles of the interviewees.

As Crane (1999, p. 242) notes, "morality, ethics, social responsibility – these are highly complex notions which can be interpreted in wildly different ways" and therefore quantitative methods are not able to provide the same understanding of meaning as qualitative studies. In other words, quantitative research methods, such as surveys, attempt to uncover facts and data and leave little room for interpretation. This is a reflection of a positivist paradigm which assumes that reality is real, concrete, and systematic (Crane, 1999, p. 239). The interpretative paradigm, however, rests upon the assumption that meaning is socially constructed and only exists through the meaning that is applied to it by individuals (ibid.). Research in the interpretative paradigm typically employs qualitative research methods, which typically leave room for interpretation.

While ESG is assessed from a financial framework and not a moral framework (Gitman, Chorn and Fargo, 2009, p. 6), the purpose of this thesis is to understand the phenomenon of ESG integration; therefore, qualitative research methods were determined most appropriate for this research. As the theoretical framework presented in section 2.3, rests upon the assumption that ESG is viewed through individual mental models and to reach a mutual understanding these mental models must be aligned, the research adopts a largely interpretative paradigm because it is believed that understanding the phenomenon of ESG integration cannot be unproblematically separated from the interpretive mind.

Furthermore, a qualitative research method is also considered most appropriate for shedding light on the mental models of investors (Rouse & Morris, 1986, p. 352). Understanding the mental models of investors is important when studying the phenomenon of ESG integration, as Ringberg & Reihlen (2008) suggest, knowledge transfer is most successful when the mental models of sender and receiver are aligned. While the present researcher acknowledges that the mental models are never fully accessible and as a consequence are not completely transparent (see Rouse & Morris, 1986, p. 349), Rouse & Morris (1986, p. 352) suggest that verbal protocols can be used to gain some access to individual mental models. These verbal protocols can be obtained through writing, a free flow of thought, or through interviews *(ibid.)*. While the researcher recognizes that self-reporting mental models may include some bias, for the present purposes an interview design is considered the best available method for studying mental models.

3.1.1. Designing the interview questions

The present sub-section reviews how the themes used to structure interview questions were established, as well as the use of archival material.

The interview questions were carefully formulated by identifying relevant themes from literature and then formulating questions according to these themes (Gillham, 2005, p. 18). (See appendix 2 for interview questions). Literature was extensively examined prior to formulating questions in order to understand what themes should be focused on. For example, the researcher developed a solid understanding of the different responsible investment strategies and how they differ from integration of ESG by mainstream investors. This also helped form important themes so that the researcher could ask the interviewees to elaborate on these topics if necessary. It should be noted that the literature was revisited after the data was analyzed (see section 3.2) in order to account for themes which emerged during the interview.

From the preliminary review of literature several themes emerged, which were incorporated into the interview questions. The primary themes which were included in the interview questions were based on the literature presented in Chapter 2. Initially the main theme was integration of ESG communication into investor relations. However, after the initial trial interview was conducted (see below), focus of the interview was shifted towards knowledge transfer and the two-way communication process discussed in investor relations by e.g. Kelly, Laskin & Rosenstein (2010), by revising the interview prompts and allowing interviewees to discuss these issues more freely

The selection of interview themes were strongly influenced by the studies of Dawkins (2004), Fieseler (2011) and Hockerts & Moir (2004) who addressed the information needs of investors. The previous researchers discussed how communication could be framed to better meet the information needs of investors by connecting ESG to more familiar financial concepts. Therefore, these theories are also related to Ringberg & Reihlen's (2008) discussion of mental models and how these models impact the way individuals interpret information differently. After the trial interview, studies by Kelly et al. (2010) and Ringberg & Reihlen (2008) were incorporated into the interview and they also influenced the interview themes as they discussed the transfer of knowledge and the role of dialogue in investor relations. In particular, the role of dialogue was addressed as a means of creating a mutual understanding between parties by aiming to bridge gaps in the knowledge bases of the dialogues' parties.

As a result of the literature review which covered communicating ESG to investors, investor relations, and knowledge transfer, the following interview themes emerged:

1. Understanding how investors perceive ESG integration
2. Understanding the reasons for ESG integration
3. Understanding how communication could help develop a mutual understanding of ESG issues.

The first theme aimed to understand how investors perceived ESG integration. In other words, the purpose of the theme was to understand how investors had integrated ESG into the investment process by e.g. incorporating negative screens or a best-in-class approach. The theme of ESG integration also aimed to understand if there were any common ESG issues that were of interest to institutional investors, such as climate change or the business opportunities related to ESG.

The second theme aimed to understand why investors had incorporated ESG into the investment process. Understanding the motivations for ESG integration was considered one way of improving the relevance of ESG communications and gaining insights into mental models of institutional investors.

The third theme served the purpose of understanding how communication could be used in order to better meet the information needs of investors and to highlight the relevance of ESG to institutional investors. Initially, the third theme primarily focused on how to improve the content of corporate responsibility reports; however, after the trial interview the researcher chose to allow interviewees to discuss the role of engagement more freely as this was highlighted by the trial interviewee as well as all subsequent interviewees.

It should be noted, however, that while these themes were integrated into the interview questions they were not necessarily asked in the same order (see Appendix 2). The present researcher recognizes that identifying these themes more clearly and further reducing the focus on reporting may have encouraged the interviewees to more explicitly discuss e.g. knowledge transfer and to consider how the interviewees themselves viewed the engagement process as a means of knowledge transfer. However, it should be noted that typically the objectives of the researcher and interviewee are not fully aligned (Auerbach & Silverstein, 2003, p. 33) and therefore the researcher felt that the interviews in this form would allow for more spontaneous discussion emphasizing the true views of the interviewees.

The main benefits of utilizing semi-structured interviews as a research method include the fact that they leave an opening for interviewees to freely express their opinions. Gillham (2005, p. 3) notes that semi-structured interviews are an ideal form of qualitative research, as this method has the ability to provide information which are rich in retail as the researcher does not restrict the answers of the interviewee. Furthermore, the interviewee and researcher interact with each other, allowing the researcher to adjust the interview if necessary in order to explore topics of interest (Gillham, 2005, p. 3). The researcher used pre-determined prompts when the interviewee had not spontaneously covered important areas of interest to ensure that all interviews were similar in content (Gillham, 2005, p. 70).

In the present study the ability of interviewees to elaborate on their questions was found extremely useful, as the emphasis they placed on each question provided insight to how important the interviewees deemed the respective issues. A common feature of élite interview is that the interviewee is more informed than the researcher. (Gillham, 2005, p. 54). Gillham (ibid.) notes that “you are asking the wrong question” is a typical response during elite interviews. Indeed, during the interview there was a shift from focusing on corporate responsibility reports to the engagement process, the role of which the researcher had initially underestimated.

One trial interview was also conducted with the intention of testing the initial interview questions (Gillham, 2005, p. 22). While the questions were not adjusted based on the trial interview the focus of the interview shifted. While it is recommendable that the trial interview is not included in the actual pool of participants, in this case the participant was included in the actual group of interviewees because he/she provided valuable insight for the research (Gillham, 2005, p. 22).

The participants in this research were interviewed utilizing both face-to-face interviews as well as distance interviews via telephone. While face-to-face interviews were preferred, the majority of investors were working in a different country than the researcher. Therefore, telephone interviews were used to gain access to these participants at a reasonable cost (Gillham, 2005, p. 5). In total, two face-to-face interviews and four telephone interviews were conducted.

To make the interviewees feel more comfortable sharing their insights, the researcher offered:

- anonymity
- a chance to review and edit the interview transcript
- an agreement to destroy the original tape once the study is published
- a chance to edit the quotations used in the commentary once the interviews have been analyzed and discussed. (Gillman, 2005, p. 55).

-

Archival materials both provided by the interviewees and available in the public domain (pertaining to the companies of the interviewees) were used to triangulate the findings from the interview. The purpose of the material was to compare the insights provided by the interviewees with the organization's previously produced material, in an attempt to identify potential "social acceptability bias" (Crane, 1999, p. 243). The archival data to complement the interview data included:

- Annual and corporate responsibility reports
- PowerPoint presentations provided by interviewees
- UN principles for responsible investment (PRI) assessment survey responses
- Information available on corporate websites
-

In sum, the literature review was used to identify relevant themes, which were used as the basis for formulating interview questions. A trial interview was used to confirm the themes proposed. Furthermore, the ability of interviewees to elaborate on relevant themes during the interview was found to be extremely useful.

3.1.2 Profile of interviewees

The present section will briefly discuss the profile of the interviewees. All of the interviewees can be considered élite participants. i.e. they are experts in the topic of ESG integration into the mainstream investment process. The selection of élite interviewees was justified in order to develop a proper understanding of the motivations for ESG integration. In other words, the researcher did not seek to understand why certain investors who are not experts in ESG integration did *not* integrate ESG into the investment process; rather the focus was to develop an understanding of why and how integration was carried out by these élite interviewees.

The interviewees were selected through an opportunistic sample, i.e. one interviewee referred the researcher to another interviewee. This approach is recommended by

	Investor profile	Face-to-face or telephone	Duration of interview	Person interviewed	UN PRI signatory	Total Assets under management
1.	Finnish investment manager	Face-to-face (Trial Interview)	1 hour	Portfolio Manager	Yes	6.4 billion €
2.	Finnish mutual pension insurance company	Face-to-face	50 minutes	Head of Responsible investments	Yes	27.5 billion €
3.	Swedish insurance company	Telephone	50 minutes	Senior Analysts, Corporate Governance	Yes	300 billion Swedish Krone (approx. 35 billion €)
4.	Norwegian life insurance company	Telephone	30 minutes	Advisor, Responsible investments	Yes	271 billion Norwegian Krone (approx. 36.8 billion €)
5.	UK investment manager / Concentrated European equity fund	Telephone	1,5 hours	Fund Manager	Yes	£ 700 million (in total) (approx. 875 billion €)
6.	U.K. investment manager	Telephone	30 minutes	• Project Manager • Quantitative Analyst	Yes	Not Disclosed

Table 1 Profile of interviewees

Gillham (2005, p. 58) when working with élite interviews as they have knowledge of individuals who can offer further insight into the research topic and therefore can provide interviews rich in information. Table 1. provides more detailed information on the interviewees.

It should be noted that during one interview, two interviewees were present. To a large extent the other interviewee acted as a facilitator, as she was highly familiar with how the company had chosen to integrate ESG to the investment process as she had acted as the project manager of the process; however, as she was not an investor per se another colleague was present in the interview to provide insight to how integration was carried out in day-to-day operations.

One of the benefits of élite interviews is that they provide extremely rich material (Gillham, 2005). As this was indeed the case in this study, six interviews were determined sufficient to provide insight to the research questions. Further interviews would not have provided a significant number of new insights.

To summarize section 3.1, a qualitative research method was selected for the present study, as the objective was not to uncover facts and data, but to develop a better understanding of the phenomenon of ESG integration; as the literature reviewed (see e.g. Ringberg & Reihlen, 2008 and Rouse & Morris, 1986, p. 349) suggests that individual mental models are unique, there is room for interpretation, which are better understood through utilizing qualitative research design (Crane, 1999, p. 239). However, the present author recognizes that mental models are never fully transparent (Rouse & Morris, 1986, p. 349). The second step was to identify potential interview themes; the themes recognized were based on the literature review and a trial interview and interviewees were provided with the possibility to elaborate on any relevant themes. To triangulate the interviews, archival material was used. Finally, the interviews were conducted among élite participants, i.e. interviewees knowledgeable in the area of ESG integration; élite interviews generally provide rich research material (Gillham, 2005).

3.2 Analysis of the data

The present section describes how data gathered from the interviews was analyzed utilizing Auerbach & Silverstein's data analysis process (2003, p. 96) (see Table 2). The first step was to restate the research problem and to transcribe interviews. Next, the present author attempted to recognize repeated ideas, which formed the basis of themes. The themes were then grouped to form theoretical constructs, and based on unexpected theoretical constructs, which emerged the literature was reviewed again. Finally, a theoretical narrative was formed and reconfirmed. Next the process presented above, will be discussed in further detail.

Six steps for constructing a theoretical narrative from text
Making the text manageable 1. Explicitly state your research concerns and theoretical framework 2. Select the relevant text for further analysis. Do this by reading through your raw text with Step 1 in mind, and highlighting relevant text.
Hearing what was said 3. Record repeating ideas by grouping together related passages of relevant text 4. Organize themes by grouping operating ideas into coherent categories
Developing theory 5. Develop theoretical constructs by grouping themes into more abstract concepts consistent with your theoretical framework. 6. Create a theoretical narrative by recalling the participant's story in terms of the theoretical construct.

Table 2 Six steps for constructing a theoretical narrative from text (Auerbach and Silverstein p. 96)

3.2.1. Restating research problem and transcribing interviews

The first step of data analysis was that the researcher restated the research questions, which had been devised for the purpose of this thesis. Reminding herself of the purpose of this study allowed the researcher to make the interview transcripts (to be described below) more manageable in terms of allowing the researcher to maintain focus on parts of the conversation that were relevant to the researcher problem. For this purpose, the preliminary theoretical framework was also mirrored against the interview transcript (Auerbach & Silverstein, 2003, pp. 44–45).

The interviews conducted for this thesis were all recorded. Recording the interviews allowed the researcher to fully focus on what the interviewee was explaining, thus the researcher was better prepared to use prompts and to focus on relevant themes, which occurred during the interview. Secondly, recording the interviews allowed the interviewee to return to the interviews, so data analysis was not solely dependent on potentially imperfect notes and memory. In addition to the interview transcript, the researcher took notes on interesting themes and ideas, which emerged during the interview. For example, some potential connections to Ringberg & Reihlen's (2008) theoretical framework were already noted during the interview.

The recorded interviews conducted were transcribed to provide a tool for further analysis. While careful attention was paid during the transcription process, certain portions of the interview were excluded at the researcher's discretion and transcriptions were edited for "relevant text" (Auerbach & Silverstein, 2003, p. 37). For example, discussion which did not directly relate to the thesis, e.g. small talk was not included in the interview transcription. Furthermore the interviews were not transcribed verbatim but were edited to exclude for example, stutters, repeated words or fillers such as "you know". Furthermore the majority of non-formal language was edited, meaning that standard language was used in the transcriptions. While the researcher recognizes that this form of editing compromises some of the authenticity of the interview, the purpose of the transcriptions was not to provide a tool for linguistic analysis but rather served the purpose of providing a tool for recognizing important themes, which emerged during the interview. Editing transcriptions for relevant text eased the analysis process.

3.2.2 Repeated ideas and emerging themes

The second step of the data analysis process was to recognize repeated ideas, e.g. words that were repeated by interviewees across interviews. In the interviews conducted for the purpose of this thesis, for example, the term "business case" was repeated several times across interviews. To recognize these ideas, the researcher read the transcribed interviews several times and highlighted different words and ideas, which occurred several times.

Based on these repeated ideas the researcher identified the group of repeated ideas, which form a theme (Auerbach & Silverstein, 2003, p. 38). According to Auerbach & Silverstein (2003, p. 38) themes can be defined as an "implicit topic that organizes a group of repeating ideas". After this these themes were grouped to form "theoretical constructs" (Auerbach & Silverstein, 2003, p. 39), which are discussed next.

3.2.3 Theoretical constructs

After themes in the interviews were recognized they were organized form groups, or theoretical constructs. For example, the theme "business case for ESG" was combined with other motivations referred to by the investors to form a theoretical construct of "motivations for investing".

During the interviews certain theoretical constructs emerged, which the researcher had not expected based on the initial literature review. Therefore, there was an initial gap between the researchers own concerns and the concerns of the interviewees. According to Auerbach & Silverstein (2003, p. 33), the emergence of such gaps is common during interviews and even indicate that the interview has been successful as the researcher has managed to uncover new and unexpected information. During these interviews, for example, the researcher originally expected corporate responsibility reports to have a much greater role in communicating ESG. Instead, the interviewees cited, for example, rating agencies and service providers such as Bloomberg as a source of information but the main focus was on dialogue carried out during the engagement process. This initial difference in concerns also helps explain why the focus of the interview questions used was not primarily on engagement or dialogue.

After these initial interviews the researcher returned to the literature and found that the insights provided by the interviewees were aligned with ideas present in both knowledge transfer and investor relations theories. From this second phase of the literature review the initial theoretical framework was revised and the framework presented in this thesis was devised (see section 2.3). Therefore, the theoretical framework then served the basis of forming themes into theoretical constructs. The final step of the interview process was to construct a theoretical narrative.

3.2.4 Forming a theoretical narrative

The final step is forming a theoretical narrative, i.e. writing the findings and discussion, which summarizes the research findings (Auerbach & Silverstein, 2003, p. 40). According to Auerbach & Silverstein (2003, p. 40), the theoretical narrative combines the interviewees subjective experiences, using their own words, with the researcher's theoretical framework, which was presented in section 2.3.

3.2.5 Reconfirming the theoretical narrative

As the analysis of the research material reflects the mental disposition of the researcher it is possible that the original meaning intended by the interviewees could be misunderstood. Ultimately, only the interviewee can know the intended meaning (Hirsjärvi & Hurme, 1984, p. iv). Therefore, once the initial theoretical narrative had been drafted, the interviewees were provided with a copy of the present thesis, to confirm the accuracy of the interpretations and theoretical construct made. As some of the interviews were originally conducted in Finnish and were later translated into English by the researcher, this was also an opportunity for the investors interviewed to comment on the translations. Furthermore, providing a transcript or analyzed results is also a matter of courtesy (Gillham, 2005, p. 14).

To summarize section 3.2, the data gathered from the interviews (see section 3.1) was analyzed utilizing Auerbach & Silverstein´s data analysis process (2003, p. 96). First, the present researcher reminded herself of the purpose of the research, in order to make the analysis of the interview transcripts more manageable. The transcripts were then used to recognize repeated ideas, which formed themes. Similar themes were then grouped into theoretical constructs. Some of the theoretical constructs that emerged were not expected and indicated a gap with the initial literature review. Therefore, in light of the new theoretical constructs, literature was reviewed again with an emphasis on knowledge transfer and investor relations. The theoretical framework was reviewed. Finally, the theoretical framework was combined with the interviewees' experiences to form a theoretical narrative, which was presented to the interviewees for comments.

3.3 Quality of the study

The present section evaluates the quality of the study. The section explores the limitations of interviews; namely, the interview as a subjective experience between two individuals, each with their own interpretations. The present authors' potential bias is also discussed and efforts undertaken to overcome any potential limitations of the current research study are described.

While the benefits of semi-structured élite interviews are manifold there are certain limitations, which must be recognized. Essentially, the interviewee situation is an occasion of social interaction of two individuals. Therefore, it is not free from the interpretations of individual minds with predetermined mental models and cognitive dispositions (Gillham, 2005, p. 6; Hirsjärvi & Hurme, 1984; Rouse & Morris, 1986).

While the researcher took carefully to analyze the data and paid careful attention to the representation of the interviewee in the interview transcription, it must be noted that the analysis of data gathered from interviews is always to some degree subjective and tied to the researcher’s own interpretations (Gillham, 2005, p. 6; Hirsjärvi & Hurme, 1984). However, this is in the nature of the qualitative approach that is based on interpretations.

Furthermore the interviewee is essentially describing a process which is not depicted in actual behavior (Gillham, 2005, p. 7). Therefore, the present thesis is merely studying the perceptions of what interviewees think that they are doing. As Crane (1999, p. 243) notes, particularly studies in business ethics and morals are subject to social acceptability bias. In other words, interviewees may have reported what they believe is considered socially acceptable and what they believe the researcher would want to hear. Rouse & Morris (1986, p. 352) also highlight that previous research studying mental models has found that interviewees sometimes report findings they believe that researcher wants and this deviates from their real actions.

To some extent this social acceptability bias was overcome through triangulation. Written material was used to confirm or question the perceptions described in interviews. Crane (1999, p. 243), suggests that evaluating the responses of interviewees against archival data can provide insight to potential social acceptability bias of interviewees.

Archival material can to some extent be used to judge which answers provided by interviewees reflect reality and which present social acceptability bias. As Crane (1999, p. 243) notes, this material also provide an excellent source for portraying the views of dominant groups in the organization. In this study the archival material was therefore used for “checking” the responses of interviewees, and the material was not used for further analysis. However, as these materials, such as annual reports, were produced by the company the investor worked for, they too only suffice at portraying reality as perceived by the respective companies.

To some extent the reliance on interviewee perceptions of reality can be avoided by using superficial analysis, such as the number of times a word appears (Gillham, 2005, p. 135). However, in this research such an analysis would not have led to the richest analysis of how investors integrate ESG into the investment process. Such an analysis would perhaps have provided answers to the “what is ESG integration” but it would not have provided such rich insight into the “how” and “why” of ESG integration.

Furthermore the researcher is also characterized by her own bias, with predetermined assumptions and expectations of what the study will yield. In this study it was particularly important to understand the bias of the researcher, as the researcher herself had an in-depth understanding of ESG issues. This also meant that the researcher to some extent had answers, from her own perspective, to the interview questions. Therefore, it was especially important to recognize the biases of the researcher to ensure that they would not compromise the best possible objectivity of the interview. To understand these assumptions the researcher asked the following questions:

1) What do I expect to find?
2) What do I hope to find?
3) What would I hope not to find? (Gillham, 2005, p. 9)

As a result of this process of self-reflection the researcher was more aware of her own bias. Therefore, the researcher could make a conscious effort to not steer the interview in a direction that would solely satisfy her predetermined definition of a “successful outcome”.

While interviews provide some challenges and limitations to researchers, namely caused by the social interaction and subjective interpretations performed by individuals, the findings of this research remain trustworthy. The interviewees have been provided an opportunity to comment on the interpretations made by the researcher. Furthermore the social interaction is a central feature of interviews which results in rich findings.

Therefore, when reading this study it must simply be understood that these results reflect an outcome of the researcher's and interviewees' interpretations that possibly cannot be replicated in different circumstances. They provide insight to the phenomenon of ESG integration into the investment process and do not even attempt to provide a universal "truth".

As a conclusion to Chapter 3, the present study aims to understand the phenomenon of ESG integration and to gain insight into the mental models of the investors interviewed. Therefore the present study utilized qualitative research methods to, which is a reflection of the interpretative paradigm. The interpretative paradigm rests upon the assumption that meaning is socially constructed and applied by individuals (Crane, 1999, p. 243); this also makes mental models difficult to study, as interviewees are merely describing their own experiences of what they believe they are doing (Rouse & Morris, 1986, p. 349; Gillham, 2005, p.7). To some extent, archival data was used to judge if answers reflected reality; however, social interaction and interpretations made by individuals remain a central feature of interviews.

The main method used to gather data in the present study were semi-structured interviews. Interview questions were designed based on the literature reviewed and adjusted based on a trial interview. However, the élite participants (Gillham, 2005) of the present study were provided with the opportunity to elaborate on relevant topics. Data gathered from the interviews was then analyzed utilizing Auerbach's and Silverstein's (2003, p. 96) data analysis process. During this process, the interview transcripts were used to recognize repeated ideas, which were then grouped into themes. Themes were then grouped to form theoretical constructs. These theoretical formed the basis of the present study's theoretical framework. The framework was then combined with the interviewee's subjective experiences to form a theoretical narrative.

4. FINDINGS AND DISCUSSION

The present Chapter presents the main findings of the research. Interviews with six European institutional investors were the primary source for findings, while documents available in the public domain and provided by the interviewees were used to complement the findings from the interviews. Next the findings will be presented so that that each sub-section addresses one of the three research questions:

1. How is the integration of ESG into the investment process perceived by institutional investors?
2. What are the reasons for institutional investors to integrate ESG into the investment process?
3. How could the communication process help institutional investors and companies to develop a mutual understanding and full appreciation of ESG?

Based on the division above, section 4.1 will address the question how investors perceive the integration of ESG into the investment process, i.e. how they would define integrating ESG. The section will also examine whether investors engage in a reflective or categorical thinking process, as according to Rinberg & Reihlen (2008) this will affect the level of social interaction, which must take place in order to develop a mutual understanding. The following section, 4.2, will further analyze the motivations of the interviewees, and their respective companies, for integrating ESG into the investment process. In conjunction to this, the role of private and cultural mental models of the interviewees will be examined in an attempt to build a more in-depth understanding of the prevailing mental models of investors. However, it should be noted that the present author recognizes that mental models are not fully transparent, and therefore it is challenging – if not impossible – to draw a clear distinction between private and cultural mental models. Section 4.3 will then examine the how the communication process can be used to develop a mutual understanding of ESG issues. In particular, the section will examine the use of environmental feedback, i.e. social interaction in the form of dialogue, which companies and investors engage in, in an attempt to align their understanding of the ESG issues of target companies. This section will also briefly discuss and examine the role of company gatekeepers in facilitating the communication process from an investor perspective. The final section 4.4 will summarize the theoretical narrative, i.e. it will explicitly demonstrate how the theoretical framework and the interviewees' subjective experiences were combined (see Auerbach & Silverstein, 2003).

4.1. Investor perceptions on integrating ESG into the investment process

The present section attempts to address the first research question, which seeks to understand how investors perceive ESG integration. Before proceeding to examine the communications process between companies and investors, initially the meaning of ESG integration to investors will be examined, i.e. how investors *perceive* ESG integration and sub-section 4.1.1 will examine how ESG *is* integrated into the investment process. This may provide an understanding of how investors process ESG information, i.e. are investors practicing reflective or categorical thinking during the investment process (Ringberg & Reihlen, 2008).

A challenge for communicating ESG with investors is that previous literature suggests that investors may take several different approaches to ESG integration (see Gitman, Chorn & Fargo, 2009). These differences may prove to be challenging as they may imply that investors have different information needs regarding ESG and it may imply that companies need to tailor messages differently for different investors. The view that there are several different approaches to ESG integration was supported by the investors interviewed. In particular a clear difference of approach was found among active investors (i.e. investors that actively pick stocks they believe will outperform the market) and passive investors (i.e. investors that track the performance of indices, such as Nasdaq's OMX Nordic 40). When the interviewees were asked how they would define ESG integration, the interviewees unanimously recognized that there are a number of ways companies can choose to integrate ESG, as can be seen by the following quotes:

"Integration [of ESG issues] can be done in so many ways. There are as many ways to integrate as there are investors. More or less it depends on what kind of investor you are and what type of investment strategy you have" (Investor 4).

" In my view, there are so many different views when it comes to ESG in the market. First of all you need to define what ESG means (Environment, Social and Governance issues)…" (Investor 3).

Among the investors interviewed, each interviewee approached ESG integration slightly differently. Some interviewees, for example, had adopted exclusionary criteria and did not invest in certain industries, such as tobacco. Meanwhile, another interviewee noted that an exclusionary approach would be impossible because this would imply that even super market chains would have to be excluded as they are resellers of tobacco products. Furthermore, another interviewee highlighted the role of governance as a key influence on corporate value levers, such as strategy and operational excellence. The role of governance was not discussed in this capacity by other interviewees. As a consequence it is possible that these interviewees have varying needs regarding information relating to a company's governance.

However, all interviewees did emphasize that ESG integration meant that environmental, social and governance factors are only *one* factor in the investment process and that it was by no means the only investment criteria. The following quotes illustrate this:

"…to us it [integrating ESG] means that we don't have separate ESG teams. ESG issues are one factor when making investment decisions. They are not the only factor. That has to be said" (Investor 2).

"We are, I would say, on the whole based on a lot of other investment drivers apart from ESG. ESG is a consideration but I wouldn't say it is one of the main points within the process" (Investor 6).

Based on the approaches to ESG integration discussed above it can be concluded that there is no universal approach to integrating ESG into the investment process. These varying approaches to integration suggest that there may be differences in organizational culture, which lead investors to perceive ESG integration differently.

4.1.1 ESG integration as a reflective thinking process

Thus far in this section, the findings seem to indicate that the integration of ESG into the investment process is a highly subjective process. Therefore, the present sub-section will examine, how investors process ESG information and how they determine which ESG factors are the most material, i.e. do they primarily practice reflective thinking where analysis is carried out to determine the important ESG issues or categorical thinking where the issues are selected automatically.

The Socio-cognitive framework of knowledge transfer by Ringberg & Reihlen (2008) makes a distinction between categorical and reflective thinking. Categorical thinking is identified as a more automated thinking process while reflective thinking relies more on an analytical thinking process. Ringberg & Reihlen (2008) suggest that both are deeply anchored into the existing mental models of individuals. Based on the method and process for integrating ESG into the investment process, the present study aims to identify whether institutional investors employ categorical or reflective thinking.

The interviews suggest that reflective thinking is employed in the integration of ESG factors. First of all, five out of six of the institutional investors interviewed could be characterized as “stock pickers”. This means that they select stocks which they believe are undervalued by the market in order to make a profit. One interviewee, for example, noted that:

“Because we know our companies so well and own substantial stakes, we can sometimes act a bit like a market maker. When we believe the stock is overshooting we sell and provide the market with liquidity and vice versa” (Investor 5).

In essence, the interviewee feels that because his asset management company is extremely familiar with the companies they invest in, they feel that the markets have not *interpreted* the value of the company correctly. In other words it seems that different investors may interpret the same information in a different manner, or they may overlook certain factors which another investor may deem important. Therefore, it seems that the investment process in general is characterized with a high level of reflective thinking.

When interviewees were asked, which ESG factors they deemed most important to the investment process, the consensus was that there is no universal set of criteria. Instead, interviewees highlighted that when determining which ESG factors are relevant to the investment process, *“the essential point is materiality” (Investor 5).* The reason why materiality represents the use of reflective thinking is that there seems to be little no set of ESG issues for each company, or even each industry. Instead, these factors vary depending on the individual target company and which factors can be of financial significance. This further supports the notion that the investment process is a highly subjective process, requiring a significant amount of reflective thinking.

Indeed, the investors interviewed highlighted the subjectivity of the investment process and determining material factors. One investor mentioned that they had a proprietary ESG scorecard for determining material ESG factors, which was industry specific. However, in most cases it was up to portfolio managers to decide on the basis of their personal interpretations and feedback from colleagues, which ESG factors were considered important:

"... the portfolio managers know the companies they invest in well. So they do the research themselves as well or read the research – we get so much broker analysis... so it's just a question of pick and choose"(Investor 2) .

As the quote above implies, the interviewees highlighted that institutional investors must engage in reflective thinking to determine which set of ESG factors are material. Therefore different investors may select different ESG issues to focus on. However, investors may not only focus on different ESG factors but they may also interpret these factors in different ways. This is demonstrated by the quote below:

"After I have made an investment decision, or we have made the decision collectively with my colleagues, we go through the portion of the responsibility analysis together.. Sometimes our colleagues may chastise us and note that "you have not conducted this analysis well enough" or "you should maybe reconsider this factor". We share all of the information we have with each other" (Investor 1).

Overall, the interviewees indicated that there seems to be no single approach to integrating ESG into the investment process. Furthermore, the interviewees discussed the fact that material ESG issues were determined based on the specific conditions of the target company. These two factors combined often seem to lead investors to varying investment decisions and conclusions of e.g. a company's ESG performance. These different interpretations imply that there may be differences in the cultural models of investment companies. Furthermore, as different investors even among the same investment company may each analyze ESG issues differently it seems that private mental models also play an active role in the reflective thinking process.

To summarize section 4.1, the institutional investors interviewed took several different approaches to ESG integration; in particular a clear difference was found among active and passive investors. All interviewees emphasized that ESG was only one consideration in the investment process. Secondly, during the investment process investors seemed to engage in reflective thinking when processing information relating to ESG. This was demonstrated by the extent of interpretation involved in selecting stocks to invest in, as well as the analysis involved in identifying material ESG issues for each company. This seems to characterize the investment process with a high level of subjectivity.

4.2 Reasons for integrating ESG into the investment process

In an attempt to develop a further understanding of the relevance of ESG to the investment process, the present section aims to address the second research question and examines the motivations for integrating ESG into the investment process in more detail. In addition, the role that private and cultural mental models play in the investment process will be further analyzed.

As Dawkins (2004, p. 109) emphasizes, each stakeholder group has unique communication needs and responds differently to the communications channels utilized. Diverging motivations for investing may therefore require different approaches to communication by companies. For example, if investors were to integrate ESG because they sought to reward "good" companies, they may adopt a best-in-class approach to investing, also known as positive screening. The implication for a company's communications, therefore, might be that it may be more relevant for companies to emphasize how they outperform their peers. On the other hand, a negative screening approach may require companies to convince investors that they do not operate in undesirable industries and that they adhere to international norms and conventions.

While there were many different approaches to ESG integration, motivations for integration among the interviewees were virtually uniform. As Gitman, Chorn & Fargo (2009, p. 5) note, ESG integration – for mainstream investors – can broadly be defined as investors taking ESG factors into consideration because they have a material impact on the financial performance of companies. The link between ESG issues and financial factors was also highlighted by all of the investors interviewed.

"In our point of view the discussion about integration is sometimes a bit funny…In a sense that some people feel that ESG factors are non-financial, or you sometimes hear they are "extra financial", quite often E, S, and G have a financial link; or most of the time they do … We feel that it is important that our portfolio managers look at ESG issues just as they are looking at profit and loss and balance sheet statements and making their cash flow predictions and so-on and so-on. So to us… that's integration" (Investor 2).

" Linking governance, or the other ESG factors, to performance [shareholder value creation], is what matters for investors" (Investor 5).

As demonstrated by the quotes above, all interviewees emphasized the importance of the business benefits of integrating ESG into the investment process and that ESG can have an impact on the financial performance of companies.

In particular, the interviewees most often discussed ESG as a way to enhance risk analysis. The number of times ESG was linked to risks far outweighed the discussion of opportunities arising from ESG.

"Our investment criteria is not based on only investing in companies with ESG based business models – to us ESG is risk management" (Investor 1).

One interviewee mentioned, for example, that in sustainability reports they were looking to see that the management of the company truly understood the ESG risks for the company.

"What the ESG report does, it's a show of the reliability of the company, the reliability of the management, and the reliability of risk management" (Investor 2).

Another interviewee mentioned that currently ESG was considered primarily a way to enhance risk analysis, but referred to the fact that as more investors begin to pay attention to ESG factors, it would also have more value.

"Going forward the fact is that ESG appears to have more and more value as more and more people pay attention to them. ... We are very keen, if it is ***something we can generate money on as it were*** *but for now, it is very much about saying do we have an opinion about ... [not] unintentionally exposing ourselves to particular ESG risks" (Investor 6)[emphasis added].*

Only one respondent arguably referred to non-financial motivations for integrating ESG. Rather the interviewee also expressed a desire to improve the ESG performance of companies:

"The criteria we have for social, environment and governance issues is based on the dream of making things better in the companies we invest in. So our goal is not to exclude companies if they are not performing well, our goal is to make them perform better" (Investor 3).

Therefore, it can be suggested that a highly financial approach to ESG is part of the cultural models of the investment community and supports previous findings (e.g. Fieseler, 2011, p. 143; Hockerts & Moir, 2004, p. 90) that investors look at ESG from the perspective of familiar financial concepts such as cost reduction, risk prevention, and corporate governance. Therefore, in order to frame ESG communications in a manner that makes it relevant to investors, it seems that there should be a strong link to the business benefits of ESG integration.

Indeed, the interviewees themselves discussed ESG issues utilizing highly financial terms and financial jargon which is often found in financial reporting:

" …Generally we feel that social is weak in terms of a quantitative basis - in terms of being able to compare a company like for like. It is also quite difficult to get hold of where a company's revenues are generated in terms of region, which would be useful in terms of being able to give a number to the risk, in terms of is it coming from Sudan for instance… or high country risk we wouldn't want to be overexposing ourselves in that way…" (Investor 6).

Looking at the way the interviewees discuss financial issues also provides clues to the jargon that could be employed when communicating ESG. Terms such as "quantitative basis", "operational efficiency", "cost reductions", "overexposure to risk"… "comparing like for like" were used. For example, emissions as such may not interest most mainstream investors – at least from a professional perspective – however, linking for example carbon dioxide emissions to financial implications arising from climate credits ties it to concepts more familiar to investors, making it more relevant and applicable to their current mental models.

The findings from the interviewees seems to support the notion that ESG communications could benefit from adopting familiar financial jargon typically employed by investor relations (Laskin, 2009, p. 214). By framing ESG in a manner which makes it relevant to investors, by using language and symbols which tie it to the business case, companies can help package ESG in a way that it fits into the current mental models of investors.

In fact, ESG issues which could not be, or are not, discussed in these terms were explicitly mentioned by several interviewees as less important because they could not be quantified or measured, as the following quotes illustrate:

"For our investment strategy, Governance is definitely the most important. Social aspects are the least relevant because with our investment horizon it is difficult to influence social factors in a way that leads to clear value creation. Companies can report on social aspects, but what can an investor do to influence the company in a way that creates shareholder value in a relevant time period? Companies should translate their social activities into quantifiable metrics that show as to how they create value for shareholders (e.g. lower costs, higher productivity, access to talent, reduces risk exposures, etc." (Investor 5).

"[Corporate responsibility reports] have a lot of irrelevant information … like HR factors…So we have 30 percent women…ok, nice to know. Maybe disclosure of [HR information] would also benefit from reporting some KPIs [Key Performance Indicators]" (Investor 1).

In sum, the above quotes are a useful reminder of the framework through which previous literature (e.g. Fieseler, 2011) suggests that investors examine ESG issues. Overall, it can be concluded that the relevance of ESG was strongly tied to an existing financial framework, where ESG was discussed in terms of risks, cost reductions, competence of management and to some extent as a strategic opportunity. While some value based motivations for ESG integration were mentioned, the interviewees made a point to emphasize the importance of a financial link.

In the case that issues cannot be placed into a "financial" framework, they seem to be irrelevant for the majority of interviewees. This point emphasizes the importance of understanding the mental models of the parties involved in communication if companies are unable to package information in a way that it matches the message recipients existing mental models, messages may be overlooked.

4.2.1 Private and cultural mental models of institutional investors

The present sub-section aims to further identify the cultural and private mental models of the institutional investors interviewed. While it is difficult, if not impossible, to make distinctions between personal and cultural mental frameworks (Ringberg & Reihlen, 2008, p. 922), the interviews do suggest that the financial framework was firmly integrated to the cultural mental models of the institutional investors interviewed. Perhaps in this case the cultural framework is shaped by the organizational culture or even the culture of the "investment community". Several institutional investors interviewed mentioned that they were interested in how ESG could enhance corporate profits, by minimizing risks and maximizing opportunities. One investor explicitly summarized that ESG is not viewed by investors as a purpose in itself, but rather as an outcome of other corporate decisions:

"A company's equity and enterprise value is determined by the company's strategy, allocation of assets, operational efficiency and funding structure. In addition to this, the Governance structure will determine how the company's decision-making and operations are controlled in the chain of management-Board-shareholder. In this framework, E and S can be seen as so-called externalities, i.e. outcomes of the company's decisions.

For example, a company can take certain strategic or operative measures, which benefit shareholders but that can also result in e.g. environmental or social improvements. For example, a company can make investments in technology, which improve energy efficiency or reduce emissions. A company can also make a decision to improve its profile and increase brand value by operating in a responsible way. In both these examples E and S are also outcomes of business decisions, they are not purposes in itself". (Investor 5).

The fact that the interviewees mostly used first person plural such a "we" or "us " when defining and discussing ESG integration from a financial framework suggests that this financial perspective is tied to cultural mental frameworks. For example, "*In **our** point of view…*", "*generally **we** feel…*". Therefore, both the above definitions and discussions of integrating ESG to the investment framework suggest that ESG integration is strongly tied into the cultural mental models of the investment community. Understanding this framework can serve as a useful starting point for companies when discussing integration.

However, as was discussed in the previous section, the divergent approaches to how ESG integration was defined and which facts are considered material, suggests that there are differences even in the mental models of different investors. These differences were widely discussed on a corporate level, emphasizing what approach the investor (referring to the investing company) took. This suggests that there may be differences in the organizational cultures of investors which help determine how ESG integration is understood.

The manner, in which the interviewees discussed ESG factors and their relevance to their analysis, provides some insight to the mental models of investors, although one cannot reach conclusions about the differences between private and cultural mental models. However, as discussed above it seems that cultural mental models of investors are strongly associated with financial frameworks. Very few references were made by investors to more personal values and frameworks. However, two respondents touch on the influence of what seem to be personal mental models.

For example, when discussing the integration of ESG, one interviewee said "*My dream is that it would all be more integrated into a day-to-day basis…"* The use of "my dream" implies that this is a highly personal statement. Furthermore, when discussing tobacco companies, another interviewee mentioned that while they had not adopted exclusionary principles, tobacco companies may be avoided both because they pose a reputation risk and because she *personally,* does not want to be accountable for the questions that may arise as result of investing.

It should be noted that the present author recognizes the difficulties in studying mental models and assigning a clear division between private and cultural models. Yet truly understanding differences behind the interviewee's private and mental models is beyond the scope of this thesis and can arguably never be completely identified. However, analyzing the manner in which investors discussed ESG integration provides some insight into the mental models of the investors interviewed. The interviews seem to indicate that throughout the investment process both cultural and private mental models are applied. While private models are more difficult to identify and analyze, and with many investors they never explicitly surfaced, it seems that prevailing cultural models tied to financial frameworks lead to the emphasis of the business benefit of ESG. The value of analyzing private models is to develop an understanding of other potential factors that may influence investment decisions, such as more moral motivations.

To summarize section 4.2, the section addresses the second research question which seeks to understand the reasons that investors integrate ESG into the investment process. Based on the data analyzed, it seems that the main motivation for integrating ESG is that ESG is considered to have a material impact on the financial performance of companies. Furthermore, the findings indicate that the motivation to integrate ESG is strongly tied to the cultural mental models of the investment community, with some influence by private mental models.

4.3 Means for reaching a mutual understanding of ESG

The present section aims to address the third research question and to uncover how the communication process could help companies and investors to develop a mutual understanding of the strategic significance of ESG and to develop a full appreciation of the target company's ESG efforts. The first step was to understand the primary source of information for the investors interviewed. As the importance of dialogue was highlighted, the purpose of dialogue was further studied. The purpose of dialogue was further explored in sub-section 4.3.1, specifically to understand if companies utilized dialogue to educate investors. Sub-section 4.3.2 discusses how dialogue, i.e. social interaction, can be used as a means to achieve negotiated knowledge. Finally, sub-section 4.3.3 will aim to identify the corporate gatekeeper and consider the role of the gatekeeper in achieving negotiated knowledge.

Initially, the role of corporate responsibility reports were discussed to understand where investors initially seek *information* relating to ESG.

While the researcher initially expected CR reports to be an important source of information for investors, none of the interviewees emphasized their importance. It seemed that the main reason that the interviewees did not use CR (corporate responsibility) reports was the fact that information was more conveniently available elsewhere. For the actual data needed, for example, investors turned to service providers such as Bloomberg, TruCost or EIRIS. These service providers scan relevant sources for a large amount of information and enable interviewees to easily select data they would like to use. For example:

"We use a service provider [for information].It is a consultancy that is specialized in screening portfolios so they screen all the information that is available. [They screen] different types of media, NGO information, newsletters… whatever information you have out there. They screen information for any company in our investment universe"(Investor 4).

Based on the interviews it was evident that data from service providers, and to some extent corporate responsibility reports, were clearly a source of information and were not used to build knowledge. Instead, interviewees highlighted the role of *dialogue* with companies. This is consistent with the shift in the investor relations discipline moving from financial reporting towards relationship management (Laskin, 2009, p. 218).

Interviewees found meetings with companies to be the most important element of ESG communications:

"To be honest, I don't read the reports, because I know that for my own role, I don't get much out of it. For the information I need, I can simply skim our own report which is 2 to 3 pages, to see if there are any particular issues. And the dialogue with companies is where the issues are really covered" (Investor 5).

"I think that is quite a large limitation in sustainability reporting at the moment, is to try and get disclosure on certain metrics. So I think a large part of how we would get information from companies is talking to management. It's not necessarily covered in their reporting [or by service providers]…" (Investor 6).

As discussed in the literature review, Kelly, Laskin, and Rosenstein (2010, p. 204) found that most investor relations officers felt that their job was to create a mutual understanding between the company and the strategic publics of the companies' activities. The literature reviewed suggested that meetings were considered important by companies due to the immense influence of investors and also because of the opportunity their provided to improve the "knowledge of investors" (Roberts, Sanderson, Barker, & Hendy, 2006, p. 284; Kelly, et al., 2010, p. 205).

The notion that investors exert a substantial influence over the target company was certainly evident in the interviews. In fact all interviewees emphasized the importance of one-on-one meetings. The interviewees described a relational approach to investing, indicating that companies and investors had very close relationships where the aim was to both foster trust between the parties and to develop a mutual understanding between the company and investors. This is demonstrated by, for example, the quotes below:

"My job description is to engage in dialogue with the investee companies' top management, Supervisory Boards, shareholders and other stakeholders on a regular

basis about current progress, what could be improved, and what we as long term involved owners could do to help" ((Investor 5).

"In our view, creating trust through dialogue and working together [with the company] is the best option" (Investor 1).

From the interviews it was clear that many investors harbored extremely close and constructive relationships with companies. One interviewee, for example, noted that his rapport with a particular company was so good that he exchanged text messages with the company's CEO. In particular, the interviewees emphasized that these relationships provided an opportunity to build a proactive and constructive dialogue with companies, and present an opportunity for investors to express their opinions. This is demonstrated by the quote below:

"Most of our work is communicating with the companies we invest in – to see how they work so we meet with them, write letters, and we work with other investors to make a change and so on….At the Swedish AGM we have decided to ***be more clear about our opinions*** *– what we find good or bad. So at the AGM we ask questions from the CEO or the Board about their environmental work or what we find important for the company" (Investor 3) [emphasis added].*

As discussed in section 2.1.3 of the literature review, engagement is a process where investors try to make the company understand what issues they believe are significant. Companies on the other hand, attempt to explain and justify their views to investors. All of the interviewees favored a constructive dialogue and believed that shareholder resolutions –i.e. a proposal submitted for a vote at the Annual General Meeting– were a last attempt to provoke change. The interviewees would rather have discussed the issues with the CEO in order to reach a *mutual understanding* of material ESG issues and to agree on appropriate levels of ESG performance. The purpose of these one-on-one discussions is to help the company understand how important investors deem these issues to be – there is also a notion that these one-on-one discussions give the company an opportunity to explain, and perhaps justify, their point of view.

"We give all companies a "responsibility score"... Initially the score might be based on publically available information; this score is then adjusted based on face-to-face meetings where we might realize that "wow, this company does much more than their corporate webpage leads to believe" (Investor 1).

This type of dialogue, or engagement, was referred to by several investors as a cornerstone of their ESG integration strategies. The investors interviewed all seek to inspire change within a company and they are quite open about expressing their opinions. These findings support those of the study conducted by Hockert & Moir (2004) regarding communications between companies and responsible investors (i.e. not mainstream investors). According to their study, one-on-one meetings were considered useful for reviewing strategic questions or for a debate on certain issues. In the present study, interviewees seemed to prioritize a constructive dialogue where they attempted to communicate their perspective to management of the target company to, and to ensure that the target company met the criteria set by the interviewees. Only if a company failed to *understand* the perspective of the interviewees and therefore change their operations as requested would the interviewees consider selling their shares. Selling shares, however, was viewed as a last resort as then investors would no longer hold power over the company in the form of voting rights:

" We do a lot [of engagement]. That is our preference if a company does not fulfill [our] criteria ... so rather than selling and not buying and kind of like washing our hands and walking away, we find that often the more responsible way is getting your hands dirty and discussing the issues with the company and why you as a company are concerned by the actions or the inactions of the company on a certain issue..." (Investor 2).

As demonstrated by the quote above, the interviewees expressed a willingness to use their power to exert pressure in an attempt to elicit change within particular companies. If these companies were not willing to engage in a dialogue, the interviewees were often prepared to take more radical measures and to exert pressure on companies in order to elicit the change they felt was necessary in order to continue as an owner. In some cases, the interviewees reported partnerships with other investors to build pressure.

"For us, and in one way for the environment – as pompous as that may sound – it is better that we stay as a shareholder and force the company to have discussions with investors. If they are not willing to talk to us, we will find other investors and group together with them so they are forced to listen to us because we are just so big as a group. By staying as a shareholder we leave the door open to putting forward a shareholder resolution at the AGM [Annual General Meeting], we reserve the right going to the annual general meeting and voting there. If we are not a shareholder we lose all these possibilities" (Investor 2).

On several occasions pressure from the investors had resulted in change within the company. Several referred to the engagement process that had been undertaken with British Petroleum in recent years, which they felt had been very successful. Furthermore, the process of dialogue also helped certain companies to understand the importance of ESG issues. As investors often have considerable influence over a company, they seem to have the power to bring these issues onto the management agenda.

"…In the past few years, perhaps because we have been asking questions, before the CEOs speech only included talk about the core business – nothing about ESG. But in the last few years, the CEO covers all of the questions we have thought about asking" (Investor 3).

However, the findings suggest that engagement is not exclusively defined by the idea of investors eliciting change through pressure. In fact, investors primarily described their relationships with companies as extremely proactive and even supportive. While at times investors are required to exert pressure on companies if their performance is subpar and they are unwilling to change, this was seldom cited as the case.

"… to a certain extent, our role as owners in some way is also that of an advisor from a capital markets' perspective. We do not just ask 'Should we invest given the direction of the company and its valuation?' but also ' What can we, as involved owners, do to help the company move to a better direction and/or faster?" (Investor 5).

As the discussion above indicates, it can be concluded that the interviewees sought to primarily use dialogue as a means of environmental feedback – to confirm and disrupt existing beliefs that the companies investors engaged with, held of their ESG performance. While the interviewees were prepared to place pressure on companies to change their performance, this was not the preferred approach. Instead, the investors interviewed sought to build relationships characterized by trust, and through a proactive dialogue with companies the aim was to both form a better understanding of the company management's perspective and to also justify their perspective to the target company's management.

Ringberg & Reihlen (2008) emphasize that in order for knowledge transfer to be successful and for two parties to reach a mutual understanding, they must be willing to understand the other party's perspective (i.e. mental models). Based on the findings from the interviews it can be concluded that there seems to be willingness among investors to bridge existing knowledge gaps between themselves and the target companies in order to align their mental models.

The present section has thus far discussed how investors engage in dialogue with companies, with the objective of aligning their mental models in companies; often, this means eliciting a change within the company. However, companies can also take a proactive approach to “disrupting” the existing mental models of investors. This will be further discussed in sub-section 4.3.1.

4.3.1 Companies educating investors about their ESG performance

The present sub-section explores the opportunities for companies to engage in proactive dialogue in an attempt to communicate their views on ESG to institutional investors. Throughout the present thesis the role of investor communications, including ESG, as two-way communication – or dialogue has been emphasized. This two-way nature was also acknowledged by the investors interviewed. While they discussed their motivations for maintaining a two-way dialogue with companies, they also noted that these discussions presented companies with opportunities to improve the knowledge base of investors and to present their opinion and perspective on issues. The interviewees reported that they invited companies to provide additional information and to justify their actions – this was seen as an integral element of the engagement process. This is demonstrated by the quotes below:

“Our approach to engagement is predominantly constructive. We want to understand an investee company inside and out and always seek a dynamic dialogue with the company’s management, Board and main shareholders. Acting as a constructive sparring partner allows us to present our views to the company and ask them to prove us wrong. If the company presents us with information proves our views incorrect, we change our mind. If they agree with our views or cannot prove them wrong, we want to cooperate with the company to address them” (Investor 5).

“We welcome [companies educating us on material issues]. Just as they present their quarterly results and annual results - they are the experts of that company in that sense - they know what they are doing and what they are not doing… so it’s a key issue for them to talk about ESG issues as well.” (Investor 2).

In addition to taking a reactive position by "defending" themselves to investors in the engagement process, the interviewees emphasized the role of companies in proactively educating investors regarding the business benefits of ESG, i.e. allowing investors to fully appreciate ESG. In fact, just as progressive investors had managed to bring ESG onto the corporate agenda, the interviewees believed that companies could also make efforts to bring ESG onto the agenda of the capital markets:

"... there are so many actors in the financial market that need education need more knowledge, there are so many analysts for instance that really haven't grasped what is this all about and why is it relevant to "me"...It would be good if we could talk about these things more at the capital market day, because that would be part of educating the analysts, educating the investors or at least make people aware of these issues. If they haven't grasped them in the past" (Investor 4).

"... when you are doing your CMDs [Capital Market Day] or go and meet analysts and go and meet investors and you have your road show material that your CEO or CFO is presenting, why don't you have some key ESG issues on there as well? You extend your slideshow by two slides, doesn't make a huge difference in that sense, but it does make a huge difference to the company" (Investor 2).

The investors interviewed for this study could perhaps be considered more "progressive" in that they were all familiar with ESG issues and had integrated ESG into their investment decisions, and therefore the role of companies "educating" them on issues was not considered of primary importance. However, the interviewees did highlight that there is still a critical mass of investors and analysts who were not considering ESG factors actively. Therefore, companies were seen as having an opportunity to both educate these investors and analysts. Proactively discussing ESG was also seen as an opportunity for companies to set the agenda in terms of what ESG issues they wanted to discuss, as they were not forced into the discussion by investors.

In Ringberg & Reihlen's (2008) model of knowledge transfer, environmental feedback plays a key role in bridging the knowledge gap. In the case of the investors interviewed, the role of dialogue was clearly highlighted as a tool for both relationship building and for developing a shared understanding of the company's ESG issues and performance.

4.3.2 From social interaction to negotiated knowledge

The present sub-section discusses how the interviewees perceived the results of the dialogue with companies (i.e. the outcome of the knowledge transfer process) and whether it could be considered to result in negotiated knowledge.

Through the interviews with investors, it became clear that first and foremost investors were looking to form a mutual understanding of the current and future state of the ESG issues of companies. Through the process of one-on-one discussions and engagement, the unanimous objective was to reach a mutual understanding and full appreciation of the company's ESG efforts. Furthermore, the interviewees also hoped that companies would learn to appreciate the investor's perspective regarding the company's current and future ESG performance. This objective is demonstrated by the quote below:

"…Our aim is to understand where the company management's thought process has come from. We do not want to make hasty decisions, which make no sense. Our job is to first form our own perspective on value creation opportunities and key priorities, and then through a long-term oriented dialogue and relationship building, understand the company's perspective and finally work together to find alignment" (Investor 5).

In fact, one interviewee explicitly mentioned that when a shared understanding was not reached with companies, this was considered to be a failure of the engagement process:

"When we say that we have dialogue with the companies… there may always be a case that the company does not want to make a change, or they cannot make a change and then it is the decision to leave the company. And that is a decision made by the committee. But that is not the goal, when that happens it is a sad day for me, that's when I feel like I have failed in my job" (Investor 3).

Overall, the interviews conducted among investors seemed to imply that the process of ESG integration and communicating ESG to investors was characteristic of a negotiated knowledge transfer process. While it seemed that initially the mental models and understandings of a company's ESG performance were often not completely aligned, dialogue was used as a form of environmental feedback to align diverging mental models. Investors provided their views to companies through an engagement process which could take the form of constructive and informal discussions; in more extreme cases voting rights at Annual General Meetings were used to voice investor opinions. Similarly, companies could offer their opinions and justify their actions to investors – these views were often welcome, because investors considered companies the experts of their own business. It was acknowledged that companies had knowledge about their business that investors did not have access to, and that the process of dialogue was an ideal opportunity to communicate this knowledge. The interviewees referred to the fact that more often than not this process lead to investors and companies resolving differences in a process that would result in reaching what Ringberg & Reihlen (2008) call negotiated knowledge. Overall the knowledge transfer process which takes place when ESG information is communicated is aptly summarized by a Norwegian investor interviewed:

"We have had so many cases where the dialogue starts from the companies arguing that that our judgment is really unfair, that ..., they are actually doing really really well… but after a while all of a sudden the tone really changes: "OK this is something we will definitely look into, we will do this and that we are implementing this and that process". I don't know, it is really difficult to see a pattern of what actually has happened and what has led to the change, but it has happened so many times. That the dialogue starts in a very defensive way and that now they are looking into the problem… and that is really really exciting" (Investor 4).

4.3.3 Assigning a gatekeeper

As a final element of the knowledge transfer process between companies and investors, the present sub-section will report on the findings related to assigning a gatekeeper internally within companies for communicating with investors. At the same time, the role of the gatekeeper will also be briefly discussed.

Past literature has suggested that ESG is most effectively communicated by the IR managers who have grasped the jargon that is familiar to investors (UNEP FI, 2010, p.9). The role of the CEO and CFO was not discussed in depth by literature regarding ESG communications; however, the interviewees all almost exclusively mentioned the importance of carrying out a dialogue with *top management*. The role of the target company's Board of Directors was also highlighted by several of the investors interviewed.

In fact, one interviewee noted that if a company is about to convincingly argue that ESG is part of the business case, and a great source of competitive advantage, the role of the CEO cannot be overlooked. Many referred to the fact that the credibility of a company's ESG agenda was seriously compromised if the CEO was unable to discuss ESG issues. This is in line with Roberts, Sanderson, Barker & Hendry's (2006, p. 286) view that the behavior and representation of top management are believed to define investor views of the state of ESG issues at the company. The important role of the CEO is demonstrated by the quote below:

"…it has been quite surprising to see some CEO's talking about ESG issues when you have seen that they are not comfortable, and that they do not know the topic by heart. That it's, let's say it's their head of sustainability that has done the slide show, and although the CEO is familiar with the slide show, you sort of get the feeling that they know the slideshow but they don't know anything beyond that. And you get the feeling

that ´hang-on… you are still saying that this is a vital part of your strategy and the CEO is not happy talking about this? What is going on?´" (Investor 2).

Another investor noted that conversations with the CEO and top management were a reflection of how important these issues were on the corporate agenda, and often had an influence on the "responsibility score" assigned to companies. Sometimes, conversations resulted in additional information that was not available in reports but in some cases CEOs were not even aware that the company produced a CR report. This point was discussed by several investors, e.g.:

"… The ability of top management to talk about ESG issues is very different. Sometimes in large companies you can see that the CSR management is very engaged, that what they want to do with a company is not really approved higher up. And in other companies it may even be the other way around, that the CEO is driving this. But this is normally really clear by just reading the report, and during the AGM they are able to talk about these… you can see very quickly who the initiatives come from" (Investor 3).

The role of the sustainability manager was only mentioned in passing by two interviewees. Perhaps the reason that these investors engaged in discussions with the ESG manager was that within the investment companies they represented, they had an ESG related role. The fact that the role of sustainability managers was not discussed by the remaining investors perhaps supports the fact that the role of the sustainability manager is to *internally* educate the investor relations officer. (Gitman, Chorn & Fargo, 2009, p. 26).

Throughout the interviews it seemed that investors felt that they had a better opportunity to lift ESG onto the corporate agenda if they engaged with direct discussions with top management or the Board of Directors:

"We work together with many other Swedish investors as part of a project called Sustainable Value Creation. As part of this project we sent a questionnaire to the 100 largest Swedish companies and we sent it to the Board, not the CSR managers we usually talk with. So we use the information and we also send the feedback to companies so that they can see how they are performing compared to other industries. …but since we send the report and survey to the Board, it seems to have opened their eyes. We could have sent it to CSR manager, who typically anyways fills it out, but now the Board had to make sure it was filled out. But it seems to have made a change" (Investor 3).

According to the investors interviewed in the present study it seems that investors are seeking to put ESG onto the top management's agenda and that top management is the preferred gatekeeper between the company and investors. This diverges to some extent from the literature where the role of the investor relations officer is emphasized as the gatekeeper. Perhaps the role of the IRO remains important for example internally, but it was not discussed by investors in the context of a dialogue and engagement.

To summarize section 4.3, the section set out to answer the third research question, i.e. how companies and investors can attempt to reach a mutual understanding and full appreciation of ESG. In this context the role of engagement and dialogue was highlighted. This process of dialogue, can be linked to what Ringberg & Reihlen (2008, p. 914) call "environmental feedback", where an existing understanding of information can be updated through, for example, social interaction. The role of reflective thinking coupled with a high level of social interaction seems to indicate that investors and companies practice what Ringberg & Reihlen (2008) identify as the negotiated knowledge transfer process. Therefore, the dialogue was found to help investors and companies reach negotiated *knowledge* – or a mutual understanding – of a company's ESG efforts.

4.4 Link to the theoretical framework

Based on the findings presented thus far in sections 4.1 – 4.3, it can be concluded that the findings of this study support the proposed theoretical framework to a large extent. Next the theoretical framework (Figure 4) proposed in Chapter 2 will be briefly reviewed in light of the findings of this study. First, based on the findings the mental models of institutional investors interviewed will be discussed. Then, the role of dialogue in achieving negotiated knowledge will be considered after which the role of the gatekeeper in the process of communicating ESG will be examined.

4.4.1. Understanding the mental models of investors

Eppler (2004, p. 12) suggests that by aligning the interests, priorities and communications styles of two parties helps ensure that the ideas and insights offered have as much impact as possible. Therefore, as a starting point for successfully communicating with investors it is important to understand their existing mental models.

The findings also shed light on the cultural mental models of investors. In particular, it was found that investors examine ESG issues from a largely financial perspective, and utilizing terms such as “cost efficiency”, “risk management”, “quantitative basis”. Investors also actively analyze ESG information for potential business risks and opportunities, suggesting that they engage in a “reflective thinking”. However, it seems that there may be some differences in the organizational cultures of investment companies, as ESG integration was approached very differently and was determined by the target company’s objectives.

In addition to the number of different approaches taken to integration, the amount of analysis involved in identifying material ESG factors as well as evaluating ESG performance suggests that the integration of ESG involves a high level of reflective thinking. The use of reflective thinking is one of the key elements of the negotiated knowledge transfer process.

4.4.2 Social interaction as a means of reaching negotiated knowledge

Social interaction was an important means of reaching a mutual understanding with companies about their ESG performance. All of the investors interviewed practiced engagement with companies. In one case, the investor interviewed was not the one to carry out the dialogue, as it had been assigned to a separate team. The literature referred to by Mengis & Eppler note (2008, p. 1291), that the purpose of the dialogue is to recognize each other's existing underlying assumptions so that through dialogue a shared understanding can be reached. In Ringberg & Reihlen's (2008, p. 923) model of Socio-cognitive knowledge transfer, this dialogue can be recognized as environmental feedback. The purpose of environmental feedback is to disrupt and confirm existing mental models. This notion was supported by the findings from the interviews. The interviewees cited that the goal of these dialogues was to reach a mutual understanding of the company's ESG issues and performance and to understand where the company's "management was coming from".

The dialogue often took the form of close relationships where investors sometimes even took on the role of an "advisor" and provided guidance on ESG issues to companies. Most often, investors cited that dialogues or "engagement" was used to elicit change within the company. When companies were not willing to make the requested changes, investors used shareholder resolutions and voting at the Annual general meeting as a form of environmental feedback, which was used to exert pressure on companies.

While the investors interviewed appeared to be rather vocal of their opinions and were willing to justify their views to the company, interviewees were also keen to understand the company's viewpoint. It was noted that company management are the experts of their own business and were therefore welcome to challenge the opinions of investors. However, these views had to be well justified.

Some interviewees also noted that companies had an opportunity to "educate" investors and analysts that have yet to understand the relevance of ESG to the business. Setting ESG issues on the investor relations agenda would help even those investors that had not integrated ESG into the investment process fully appreciate ESG.

Overall it can be concluded that the investors interviewed all expressed a desire to reach a negotiated knowledge base with companies regarding ESG issues. Dialogue between companies and investors was used as the main tool to confirm and disrupt existing mental models and to form a full appreciation of the company's ESG efforts.

4.4.3 Assigning a gatekeeper

The role of the investor relations officer as the gatekeeper was the only element of the proposed theoretical framework, which was not supported by the interviewees. While the literature (e.g. WBCSD & UNEP FI, 2010) suggested that the investor relations officer would act as a good gatekeeper between companies and investors because they are able to utilize jargon familiar to investors, the study found that most investors preferred to have the discussions regarding ESG with the top management of the company, such as the CEO. The Board of Directors was also mentioned as important when participating in dialogue with companies.

To summarize section 4.4, it can be concluded that the findings largely support the proposed theoretical framework. Firstly, the findings seem to indicate that investors examine ESG from a highly financial perspective. Secondly, dialogue was recognized as a useful tool for attempting to reach a shared understanding of ESG. In contrast to the framework proposed, the study found that institution investors preferred to discuss ESG with the top management of the company instead of the IRO.

To conclude Chapter 4, the research questions introduced in Chapter 1 will be examined in light of the findings. The first question aims to understand how investors perceive the integrating of ESG into the investment process. Based on the findings of the present study, it can be concluded that ESG integration seems to have several manifestations; however, all interviews emphasized that ESG was only one consideration in the investment process. The fact that there are several approaches to ESG integration and the analysis involved, implies that investors therefore employ reflective thinking in the investment process. The second research question aimed to understand the reasons that investors choose to integrate ESG into the investment process. The findings suggest that ESG is viewed primarily from a financial framework, which is closely tied to the cultural mental models of institutional investors. Moral motivations for ESG integration were only mentioned by some, providing a peek into what could be considered the private mental models of the investors interviewed. However, the present author recognizes that mental models are not fully transparent and are far more multi-faceted than what was found in this study. Finally, the third research question sought to understand how the communication process could help investors and companies develop a mutual understanding and full appreciation of ESG. The communication of ESG between the institutional investors and company representation mirrors what Ringberg & Reihlen (2008) call the negotiated knowledge transfer process. The interviewees emphasized that dialogue was the preferred form of environmental feedback, in order to reach a mutual understanding with companies on ESG issues. Overall the communication process described was characterized by a high level of social interaction. The institutional investors interviewed also described top management as the preferred gatekeeper during the process of engagement. It can be concluded that at large, the findings support the theoretical framework proposed by the present study in section 2.4.

5. CONCLUSION

The present Chapter will conclude the thesis by summarizing the research project and by bringing together the main findings of the study ,and the managerial implications. First, section 5.1 will briefly summarize the previous four sections while section 5.2 will present the main findings of the present thesis. Based on these findings, section 5.3 will present the proposed implications of the study. After this, the potential limitations which should be considered will be discussed in section 5.4. Section 5.5 will conclude the report by providing suggestions for further research.

5.1 Research summary

The present section will provide a summary of the objectives of the research. Some of present researcher's motivations for the study will also be discussed briefly. The research design employed will also be reviewed.

The purpose of the thesis was to understand how knowledge transfer theories can be applied to the communication of ESG factors between companies and investors, in order for both parties to reach a mutual understanding and full appreciation of ESG. The present thesis aims to answer the following questions:

1) How is the integration of ESG into the investment process perceived by institutional investors?

2) What are the reasons for institutional investors to integrate ESG into the investment process?

3) How could the communication process help institutional investors and companies to develop a mutual understanding and full appreciation of ESG?

Based on these questions, the present thesis proposed a framework synthesizing theories of investor relations and Ringberg & Reihlen's (2008) Socio-cognitive framework, in the context of ESG communication between institutional investors and companies.

The author of the study has worked extensively with corporate responsibility reports, consulting companies on best practice approaches to reporting as well as providing support for preparing these reports. The primary stakeholder group of these reports, as most often cited by companies, is investors. However, through discussions with investors the author has found that to a large extent reports are not utilized by investors as most investors have cited that ESG information is irrelevant to their positions. Dawkins (2004) notes that the reason why companies have failed to successfully communicate ESG issues to investors is that they have not framed their communications in a manner that makes ESG relevant. Therefore, the author sought to understand how companies could apply knowledge transfer theories to ESG communications in a pursuit to reach a mutual understanding and full appreciation of ESG with investors.

To understand how companies could help investors develop a full appreciation for their ESG efforts, the communication process was analyzed utilizing knowledge transfer theories. Essentially, knowledge transfer theories aim to understand how knowledge can be transferred from one party to the other. Ringberg & Reihlen (2008) suggest that these parties often have different mental models which must be accounted for in the communications process. Therefore, the study first sought to understand how investors understand ESG integration and their motivations for integrating ESG factors into the investment process. This would provide an understanding of the existing mental models of investors, so that communications could be framed in a relevant manner.

The second step was to understand how the mental models of investors and companies could be aligned. Through a pilot interview that was conducted with a Finnish institutional investor, the role of dialogue and engagement between companies and investors was highlighted. This dialogue was closely related to the practice of investor relations (IR), which is a two-way dialogue between companies and investors (Kelly, Laskin & Rosenstein, 2010). The aim of the IR is to build a full appreciation for the company's business activities, or in this thesis, the company' ESG efforts. As there was no literature available on the communication *process* of ESG, the thesis sought to examine the IR communications process from a knowledge transfer perspective. Based on this, a theoretical framework was proposed.

The research methods employed by this thesis were qualitative in nature. The interviews were conducted among six European institutional investors. The research questions were structured with the objective of understanding the motivations for ESG integration and what particular ESG information investors look for. These questions would serve as the basis for building an understanding of the existing mental models of institutional investors. Investors were also asked about the investment process which they used, which led to an understanding of the role of dialogue between companies and investors.

To summarize, the purpose of the thesis was to understand how ESG can be communicated between companies and investors, in order for both parties to reach a mutual understanding and full appreciation of ESG. As the ESG communication process has previously not been studied, the study applied knowledge transfer and IR theories. The study employed a qualitative research design, utilizing semi-structured interviews among institutional investors. Overall the study not only contributed insight to the ESG communication process, but also shed light on the mental models of institutional investors.

5.2 Main findings

The present section reviews the main findings of the present study, which were threefold. First, the results of the study shed light on how investors perceived ESG integration. Secondly, an understanding of the motivations for integrating ESG into the investment process was also uncovered, providing insight to the mental models of investors. Finally, the thesis provided insight to how knowledge transfer theories could be applied to the communication of ESG between companies and investors. Next the main findings will be summarized in more detail.

5.2.1 Perceptions of integrating ESG into the investment process

First, the study found that the integration of ESG was perceived in several different ways. However, to all of the investors interviewed, integration mainly meant that ESG factors were only one consideration when making investment decisions and that these factors were mainly assessed from a business perspective. However, a variety of different strategies, such as negative screening, were used to integrate ESG into the investment process.

Furthermore, investors did not cite any specific ESG criteria or factors used to determine ESG performance during the investment process. Instead, the investment process was characterized by a high level of analysis (i.e. reflective thinking). Investment decisions were often subjective, and for example, material ESG factors were identified by each individual investor.

5.2.2 Reasons for integrating ESG

Secondly, the study analyzed institutional investors' motivations for integrating ESG. The most widely cited motivation for integrating ESG factors was the fact that it provided an enhanced understanding of the company's risk factors. ESG was also cited as a strategic business opportunity as well as an opportunity for cost reductions. Several investors noted that those ESG factors which could not be measured were not of interest as they could not be tied to existing financial valuation models. The approaches to ESG integration were most often discussed using "we" and "us". The use of the first person plural seems to suggest that the opinions expressed were not entirely those of the investors interviewed alone. The fact that all of the investors made a point to stress the importance of examining ESG from a financial perspective suggests that there may be existing cultural models which lead investors to examine ESG through a financial framework.

It is extremely difficult to evaluate a person's existing mental models, and making a distinction between cultural and private models is even more difficult – if not even impossible (Ringberg & Reihlen, 2008, p. 922; Morris & Rouse, 1986, p. 349; Jameson, 2007, p. 201). However, during the interviews there were select moments when the interviewees switched from the first person plural to the first person singular form. For example, one investor expressed that it was *her* dream that ESG would be integrated into day-to-day operations. This suggests that personal models are indeed present during the investment process. However, identifying the private mental models of each investor is beyond the scope of this thesis. Furthermore, indentifying these models may not add value for companies as there exist as many private models as there are investors; therefore, it is impossible for companies to frame communications to meet each person's individual needs.

5.2.3 Reaching a mutual understanding of ESG through dialogue

While it is perhaps challenging to explicitly identify the cultural and personal mental models of investors, the findings do suggest that companies and investors made an effort to align their mental models in a manner that allowed investors to develop a full appreciation of the company's ESG efforts. These mental models were aligned through a process of engagement, which is a form of dialogue.

Dialogue was used by companies and investors to confirm and disrupt existing beliefs of both parties. Investors, for example, used dialogue to elicit change within a company's ESG performance when necessary. Investors sometimes even took on an "advisory" role. Companies were invited to actively participate in this dialogue and to challenge the views of investors. The investors interviewed recognized that the companies were the experts of their own business and therefore investors were open to the option of being "proved wrong" as long as the arguments were justified. The ultimate goal of the dialogues, as cited by the investors interviewed, was to form a full appreciation and mutual understanding of the company's ESG efforts.

In the case that a mutual understanding was not reached, investors were willing to put pressure on companies in the form of shareholder resolutions and voting at the AGM, to ensure that the company made the changes deemed necessary. Selling the company's shares was considered the most extreme measure. Despite this, most investors believed that the engagement process had only been successful if a mutual understanding was reached in a constructive manner.

The literature surveyed suggested that most appropriate company representative to take part of the dialogue with investors was the investor relations officer. It was noted that they would understand the jargon used by investors and therefore they would be able to frame communications in a manner that made ESG relevant to them. However, the investors surveyed placed a much greater emphasis on top management, and even the Board of Directors, as gatekeepers of ESG information.

The main reason for emphasizing the role of top management was the fact that investors saw top management as a mirror of the importance of ESG issues on the corporate agenda. Investors noted that in order for companies to claim that ESG issues were of strategic importance to the company, the CEO would have to feel comfortable discussing the issues. A lack of understanding ESG issues, or a lack of awareness of the company's current ESG practices, threatened to compromise the credibility of ESG communications.

5.3 Implications of the study

The present section discusses the practical implications of the study. First, through the study the importance of framing messages to match the mental models of investors and selecting appropriate communication channels is emphasized. Secondly, the findings of the present study suggest that companies should proactively communicate ESG issues. Finally, the role of top management in communicating ESG is discussed.

5.3.1 Framing messages and selecting communication channels

In order for companies to ensure that investors develop a full appreciation for ESG efforts undertaken by companies, companies should ensure that their communications are framed in a manner that makes ESG relevant to investors. Based on the study it can be concluded that ESG issues should be tied to a financial framework, and the link between ESG issues and risk factors and business opportunities, should be emphasized.

Corporate responsibility reports, for example, could arguably be made more useful for investors if companies paid more attention to report structure in order to align the reports with the topics investors deem material. Furthermore, linguistic choices can be used to connect ESG issues more explicitly to a financial framework.

Companies should also ensure that communicating ESG issues is not confined to reports. The findings of this thesis suggest that reports are mainly used to search for information while a deeper understanding of ESG issues is developed through dialogue. In fact, most of the investors interviewed made use of service providers for the facts needed for investment models. Instead, a proactive two-way dialogue should be emphasized as it offers opportunities for companies to justify their current positions and to better understand the mental models of investors. These dialogues will also provide companies with a better understanding of what issues companies deem material.

5.3.2 Proactively communicating ESG issues to investors

While the investors interviewed in this study all considered ESG factors material, Sullivan (2011, p. 2) has noted that there still seems to remain a critical mass of investors that do not actively consider ESG factors. Therefore, it can be recommended that companies also proactively discuss ESG issues when meeting investors at annual general meetings, road shows and capital market days, for example. By proactively discussing these issues companies will not only play a role in educating capital markets about ESG issues, but they will also seize the opportunity to set their own agenda.

5.3.3 Role of top management communicating ESG

The final implication of the present thesis is a recommendation that companies should ensure that ESG issues do not remain exclusively on the agenda of the sustainability manager. The investors interviewed for this thesis clearly preferred seeing that top management had taken ESG issues onto their agenda and that they were actively advocating improvements. Having a CEO who is visibly uncomfortable discussing ESG issues only compromises the credibility of any ESG communications. Therefore, companies should ensure that the CEO is an advocate of ESG issues and feels comfortable discussing them. Finally, it should be emphasized that when discussing ESG issues with investors, communicators should assume a financial framework..

5.4 Limitations of the study

The preset section will discuss the potential limitations of this research which should be considered when discussing the findings presented in Chapter 4. In particular, the relation between individual and private mental models is discussed and challenges of gaining access to these mental models are discussed, The present section will also consider the emphasis on communication and translation as a means of achieving knowledge transfer.

One of the aims of the present thesis is to provide some insight to the mental models of investors. Jameson (2007, p. 200) argues that the current understanding of intercultural communication in a business context should be expanded beyond nationality in order to include vocation as a central factor. However, while providing further insight to the cultural mental models of investors is valuable, privileging vocation also provides a somewhat one-dimensional view of culture. As Jameson (2007, p. 206) notes, private cultural models also have a strong influence on individual mental models.

While the present thesis has primarily focused on understanding the cultural mental models of investors, some attempt has been made to recognize the private mental models of investors. However, as Rouse & Morris (1986, p. 349) and Jameson (2007, p. 201) note, it is difficult access other peoples' mental models as they are never completely transparent. Furthermore, Ringberg & Reihlen (2008, p. 922) note that it is difficult to distinguish where the use of a cultural model begins and a private model ends. While some generalizations of the investment community's culture have been made, e.g. about the motivations of investors to integrate ESG into the investment process, it has to be acknowledged that as Jameson (2007, p. 202) notes, communication never occurs between cultures or organizations but it is always between individuals. Therefore, one should be careful of making generalizations of the mental models of investors as a particular vocational culture.

While Rouse & Morris (1986, p. 352) note that mental models can to some extent be studied utilizing verbal protocols, e.g., interviews, these protocols are not completely unproblematic. In addition to the questionable transparency of mental models, investors may also have provided answers, which they believe the interviewer would have wanted to hear (ibid). Crane (1999, p. 243) identifies this as social acceptability bias. To some extent the problem of social acceptability bias was overcome through triangulation (see sub-section 3.1.1). Therefore, this thesis is purely exploring the perceptions of investors and how they experience the communication of ESG issues; no attempt is made to provide universal truths of the integration of ESG into the investment process.

The thesis also discusses the role of communication and translation as a means of achieving knowledge transfer. However, the organizational context of this transfer is not discussed in the study and should be studied in more detail as contextual factors may hinder the knowledge transfer process. As Szulanski (2000) notes, knowledge transfer can be impeded by what Szulanski describes as “stickiness”. For example, motivation for knowledge transfer, organizational context, and personal relationships can impact the knowledge transfer process (Szuanski, 2000, p. 14). (Szulanski, 2000, p. 23; see also Eppler, 2004). Furthermore, Zhu (2004, pp. 70–71), notes that many knowledge transfer theories stress that knowledge transfer can also be impacted by power relationships. Therefore, the present author recognizes that the theoretical framework presented in the thesis (see section 2.3) may be over simplified and therefore in practice there may be impediments to knowledge transfer not accounted for by the model. However, while these factors merit more attention and should be acknowledged, they are largely beyond the scope of this thesis.

A potential further limitation of the study is the fact that the present author has worked extensively with communicating corporate responsibility and has previously discussed these issues with investors in a professional capacity. Therefore, there is a possibility that the author has steered the interviews into a certain direction. However, to ensure that this would not occur, a semi-structures interview format was adopted and the interviewer made a conscious effort not to interrupt the interviewees or to provide personal opinions during the interview. Throughout the interviews, the interviewees were encouraged to discuss issues they felt were important.

Furthermore, two interviews were conducted in Finnish as this was the preferred language of the interviewee. The quotes presented in this thesis were then translated into English by the author, so it is possible that something has been lost in translation. However, the interviewees were provided an opportunity to comment on these translations to make sure that they felt that they had not been misrepresented.

To summarize section 5.4, the main challenges in the present research was that as Rouse & Morris (1986, p. 349) and Jameson (2007, p. 201) note, it is difficult to access a person’s mental models, as these mental models are never fully transparent. Therefore, focusing on cultural models, such as ones shaped by vocation, risks providing a one-dimensional view of the mental models of institutional investors; this is because in addition to vocational culture, their mental models are shaped by a variety of other cultures as well as private mental models. Nonetheless, as long as these other influences are recognized some conclusions on the cultural mental models of investors can be drawn. Furthermore, the process of knowledge transfer does not occur in a vacuum; therefore, it is important to recognize that some factors – identified as “stickiness” by Szulanski (2000) may impede the knowledge transfer process. While these aforementioned challenges are important to acknowledge, they are largely beyond the scope of the present thesis.

5.5 Suggestions for further research

The present section provides three main recommendations for further research. Due to the current lack of literature combining knowledge transfer theories and investor relations, the International Business Communication discipline could benefit from further research in the field. The role of the gatekeeper in communicating ESG also merits further study. Finally, it would be interesting to research the ESG communication process between companies and investors, from the company perspective.

First of all, it is worth noting that this study only examines the communication of ESG factors from the perspective of institutional investors in the European market. Therefore, it may be of interest to study, for example, ESG integration by American institutional investors or how ESG factors should be communicated to analysts. This thesis provides only a cross-section view of one actor in the capital markets and therefore studies on other parties of the investment community, e.g. analysts, would be justified.

When embarking on this study the author was surprised to find that there was no prior academic literature linking investor relations and knowledge transfer theories. Essentially the objective of these two disciplines is the same: to ensure that two or more parties transferring knowledge, develop a mutual understanding of this knowledge. The author feels that investor relations studies would benefit from a more in depth analysis of how investor relations can apply knowledge transfer theories in order to ensure that both parties reach a mutual understanding and full appreciation of strategically important topics.

From a knowledge transfer perspective, it would also be worth further analyzing the existing mental models of investors and companies and uncovering potential differences. Why do companies consider ESG issues important? Are these motivations different from why investors consider ESG material? Developing an even more in-depth understanding of these differences would benefit companies by helping both parties to identify areas where the mental models should be further aligned.

Secondly, the present thesis also examined the position of a gatekeeper between corporate and investor communications. The findings of the study diverged from the previous literature stressing the role of the investor relations officer (e.g. UNEP FI, 2010 and Gitman, Chorn & Fargo, 2009). Instead, the institutional investors interviewed stressed the role of the CEO and top management in communicating ESG as they mirrored the extent to which these issues truly were on the corporate agenda. Two investors also emphasized the role of the Board of Directors. As the findings of this study were not consistent with previous literature, it may be worth conducting further research on the role of the organizational gatekeeper in communicating ESG issues and examining which member of the company is best suited for this role.

The third area for further research would be to examine the knowledge transfer process from the perspective of companies. Previous literature (e.g. WBCSD & UNEP FI, 2010) has found companies frustrated with the fact that investors are not interested in ESG issues. Therefore, it would be interesting to see how companies feel they can most effectively communicate ESG issues. It would also be interesting to see what results could be achieved by implementing the recommendations of this thesis, namely proactively putting ESG issues on the communications agenda.

REFERENCES

Alavi, M., & Leidner, D. E. (2001). Review: knowledge management and knowledge management systems: conceptual foundations and research issues. *MIS Quarterly*, *25*(1), 107–136.

Amaeshi, K. & Grayson, D. (2009) The challenges of mainstreaming environmental, aocial, and governance issues in investment decisions: a mini-survey of practitioners' reports.

Auerbach, C.F. & Silverstein, L.B. (2003). *Qualitative Data : An Introduction to Coding and Analysis*. New York, NY, USA: NYU Press.

Business for social responsibility. (2009, June 25). Environmental, Social, and Governance: moving to mainstream investing?

Carroll, A. B., & Shabana, K. M. (2010). The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice. *International Journal Of Management Reviews*, *12*(1), 85–105.

Christensen, L., & Cornelissen, J. (2011). Bridging Corporate and Organizational Communication: Review, Development and a Look to the Future. *Management Communication Quarterly*, *25*(3), 383–414. doi:10.1177/0893318910390194

Crane, A. (1999). Are You Ethical? Please Tick Yes Or No On Researching Ethics in Business Organizations. *Journal Of Business Ethics*,*20*(3), 237–248.

Dawkins, J. (2004). Corporate responsibility: The communication challenge. Journal of Communication Management 9(2), 108–120.

Domini, A. (2001). Socially Responsible Investing: Making a Difference and Making Money. Chicago: Dearborn Trade.

Du, S., Bhattacharya, C.B. & Sen, S. (2010). Maximizing Business Returns to Corporate Social Responsibility (CSR): The Role of CSR Communication. International Journal of Management Reviews, 12 (1), 8–19.

EFFAS & DVFA. (2010). KPIs for ESG: a guideline for the integration into financial analysis and corporate valuation. Version 3.0.

Eppler, M. (2004). Knowledge communication problems between experts and managers: an analysis of knowledge transfer in decision processes.

Eppler, M. J. (2006). *Communication, Version 2.*(July), 1–12. University of Lugano

Eppler, M. (2007). Knowledge Communication Problems between experts and decision makers: an overview and classification. The Electronic Journal of Knowledge Management, 5(3), pp, 291–300.

Fieseler, J., Hoffmann, C. & Meckel, M. (2008). Framing Corporate Social Responsibility for Capital Market Communications. Conference Papers –- International Communication Association, 1–21. Retrieved from EBSCOhost.

Fieseler, C. (2011). On the corporate social responsibility perceptions of equity analysts. Business Ethics: A European Review, 20(2), 131–147. doi:10.1111/j.1467-8608.2011.01616.x

Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *The New York Times Magazine.*

Gillham, B. (2005). Research Interviewing: the range of techniques. Berkshire, UK: McGraw Hill Education. Retrieved from: http://site.ebrary.com.libproxy.aalto.fi

Gitman, L., Chorn, B., & Fargo, B. (2009). ESG in the mainstream: The role for companies and investors in Environmental, Social and Governance integration. BSR.

Global Reporting Initiative. (2009). Reaching investors: Communicating Value Through ESG Disclosures. Retrieved from: https://www.globalreporting.org/resourcelibrary/Reaching-Investors.pdf

Graafland, J. J. (2002). Profits and Principles: Four Perspectives. *Journal Of Business Ethics*, *35*(4), 293–305.

Harada, T. (2003). Three steps in knowledge communication: the emergence of knowledge transformers. *Research Policy*, *32*(10), 1737. doi:10.1016/S0048-7333(03)00060-X

Hirsjärvi, S. & Hurme, H. (1984). Merkityksen ongelma haastattelututkimuksessa. Jyväskylä, Finland: Jyväskylän yliopiston kasvatustieteen laitoksen julkaisuja.

Hockerts, K., & Moir, L. (2004). Communicating Corporate Responsibility to Investors: The Changing Role of the Investor Relations Function. *Journal of Business Ethics*, 52(1), 85–98.

IR society. (2012). About us: definition of investor relations. Retrieved from: http://www.irs.org.uk/about/definition-of-investor-relations

Kelly, K. S., Laskin, A. V., & Rosenstein, G. A. (2010). Investor Relations: Two-Way Symmetrical Practice. *Journal Of Public Relations Research*, *22*(2), 182–208. doi:10.1080/10627261003601630

Laskin, A. V. (2009). A descriptive account of the investor relations profession. *Journal of Business Communication*, 46(2), 208–233. Retrieved from EBSCO*host*.

Lewis, A., & Juravle, C. (2010). Morals, Markets and Sustainable Investments: A Qualitative Study of 'Champions'. *Journal of Business Ethics*, 93(3), 483–494. doi:10.1007/s10551-009-0235-5

Mars, M., Virtanen, M., & Virtanen, O. (2000). *Sijoittajaviestintä strategisena työkaluna*. Helsinki, Finland: Edita.

Marston, C. (2008). Investor relations meetings: evidence from the top 500 UK companies. *Accounting & Business Research (Wolters Kluwer UK)*, *38*(1), 21–48

McDermott, R. (1999). Learning across teams. *Knowledge Management Review*, 8, 32–36.

Mengis, J. & Eppler, M. (2008). Understanding & Managing Conversations from a Knowledge Perspective: An Analysis of the Roles and Rules of Face-to-face Conversations in Organizations. *Organization Studies*, 29(10), 1287–1313. DOI: 10.1177/0170840607086553

Michelson, G., Wailes, N, van der Laan, S. Frost, G. (2004). Ethical Investment Processes and Outcomes. Journal of Business Ethics, 52, 1–10.

National Investor Relations Institute. (n.d.). About us. Retrieved from: http://www.niri.org/FunctionalMenu/About.aspx

Oswick, C., Anthony, P., Keenoy, T., Mangham, Iain, L. & Grant, D. (2000). A dialogic analysis of organizational learning. *Journal of Management Studies*, 37(6), 887–901

Porter, M. E. & Kramer, M. R. (2006). Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility. *Harvard Business Review*, 84(12), 78–92.

Principles for Responsible Investment. (n.d.a) About us. Retrieved from: http://www.unpri.org/

Principles for Responsible Investment. (n.d.b) The Principles for Responsible Investment. Retrieved from: http://www.unpri.org/

Ringberg, T., & Reihlen, M. (2008). Towards a Socio-Cognitive Approach to Knowledge Transfer. *Journal Of Management Studies*,*45*(5), 912–935. doi:10.1111/j.1467-6486.2007.00757.x

Roberts, J., Sanderson, P., Barker, R., & Hendry, J. (2006). In the mirror of the market: The disciplinary effects of company/fund manager meetings. *Accounting, Organizations & Society*, *31*(3), 277–294. doi:10.1016/j.aos.2005.02.001

Rogers, P. S. (2000). CEO Presentations in Conjunction With Earnings Announcements. *Management Communication Quarterly*, *13*(3), 426.

Rouse, W. & Morris, N. (1986). On Looking Into the Black Box: Prospects and Limits in the Search of Mental Models. *Psychological Bulletin*, 100 (3), 349-363.

Sandberg, J., Juravle, C., Hedesström, T., & Hamilton, I. (2009). The Heterogeneity of Socially Responsible Investment. *Journal of Business Ethics*, 87(4), 519-533. doi:10.1007/s10551-008-9956-0

Schmidt, S. & Weistroffer, C. (June 24, 2010). Responsible Investments: a new investment trend here to stay. Deutsche Bank Research.

Sharma, A. (1997). Professional as agent: knowledge asymmetry in agency exchange. *Academy of management review*, 22(3), 758–798.

Sparkes, R. & Cowton, C. (2004). The maturing of socially responsible investment: a review of the developing link with corporate social responsibility. *Journal of Business Ethics*, 52, 45–57.

Sullivan, R. (2011). *Valuing corporate responsibility: how do investors really use corporate responsibility information?* Sheffield: Green lead publishing.

Sullivan, R. & Mackenzie, C. (eds.) (2006). *Responsible Investment*. Sheffield: Green leaf publishing.

Szulanski, G. (1996). Exploring internal stickiness: impediments to the transfer of best practice within the firm. *Strategic Management Journal*, *17*27–43.

Tuominen, P. (1997). Investor relations: a Nordic School approach. *Corporate Communications: An International Journal*, 2 (1), 46 – 55. doi: 10.1108/eb046534

Universita della svizzerra Italiana & University of St.Gallen (n.d.). Overview. Retrieved from: http://www.knowledge-communication.org/overview.html

Vandekerckhove, W., Leys, J. & Van Braeckel, D. (2007). That's not what happened and it's not my fault anyway! An exploration of management attitudes towards SRI-shareholder engagement. *Business Ethics: A European Review*, 16, 403–418. doi: 10.1111/j.1467-8608.2007.00512.x

WBCSD & UNEP FI (March 2010).Translating ESG into sustainable business value: key insights for companies and investors.

Yakhlef, A. (2007). Knowledge transfer as the transformation of context. TheJournal of High Technology Management Research, 18(1), 43–57.

Zhu, Z. (2004). Knowledge management: towards a universal concept or cross-cultural contexts? *Knowledge Management Research & Practice*, 2, 67–79.

APPENDICES

Appendix 1 – UN principles for responsible investment

1 We will incorporate ESG issues into investment analysis and decision-making processes.

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.

Appendix 2 – Interview questions send to interviewees

Data gathering process

- In your view, what does it mean when a company decides to integrate ESG (environment, social and governance) issues into the investment process?
- What kind of process do you use to determine which companies to invest in?
- Where do you find information?
- How do you evaluate a company's ESG data/ performance?
- How do you disclose/report your findings?

Disclosure

- What do companies report well?
- What should they disclose better?
- What elements of ESG/sustainability do you consider to be most important? The least important?
- From your point of you, how should companies disclose ESG information?