BEYOND RETURNS:

THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY IN PRIVATE EQUITY FUNDRAISING

A qualitative study of Sentica Partners fundraising network

William Westermarck
Master's Thesis in International Business
Supervisor: Ilia Gugenishvili
Faculty of Social Sciences, Business and Economics, and Law
Åbo Akademi University
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Fundraising is a fundamental part of a Private Equity (PE) firm's operations. Raising a fund allows a PE firm to operate, and further, generate lucrative returns for its investors and partners. Fund returns have traditionally been the metric that indicates the success of a private equity firm, and whether investors want to invest capital in a private equity firms upcoming funds.

However, during the past decade, the private equity industry has seen signs of additional ways to attract investors. This study aims to examine the role of corporate social responsibility (CSR) in private equity fundraising, through conducting thorough interviews with a Finnish private equity firm; Sentica Partners investors.

The findings of this research underscore the importance of robust environmental, social, and governance ESG & CSR policies and practices in private equity funds as a key driver of fundraising success, particularly in the Nordics where good CSR performance is considered a license to operate. However, challenges associated with CSR/ESG integration cannot be ignored. The findings also indicate that there is no standard framework for reporting and evaluating CSR performance, which poses challenges in measuring and comparing performance across firms for investors. Finally, the research found a difference in views among investors on whether CSR performance and financial performance correlate, which could be partly due to the limitations regarding ESG metrics, but also due to political views, social identity, ethical views, gender, or age.

Keywords: Private Equity, CSR, Fundraising, ESG

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Kapitalanskaffning är en grundläggande del av ett Private Equity -företags verksamhet. Att samla in en fond gör det möjligt för ett PE-företag att driva och generera lukrativ avkastning för sina investerare och partners. Fondavkastning har traditionellt varit det mått som indikerar framgången för ett private equity-företag, och om investerare vill investera kapital i ett private equity-företags kommande fond.
Under de senaste åren har private equity-branschen sett tecken på ytterligare sätt att locka investerare. Denna studie syftar till att undersöka rollen för Corporate Social Responsibility (CSR) i private equity- kapitalanskaffning, genom att genomföra grundliga intervjuer med ett finskt Private Equity-företag; Sentica Partners investerare. Resultaten av denna forskning understryker vikten av robusta ESG/CSR-policyer och metoder i private equity-fonder som en viktig drivkraft för kapitalinsamlingsframgång, särskilt i Norden där goda CSR-resultat anses vara en licens att operera. Utmaningar i samband med CSR/ESG-integration kan dock inte ignoreras. Resultaten tyder också på att det saknas ett standardramverk för rapportering och utvärdering av företagens sociala ansvar, vilket innebär utmaningar när det gäller att mäta och jämföra företag för investerare. Slutligen lyfter forskningen fram en skillnad i åsikter bland investerare om huruvida CSR-prestation och finansiella resultat korrelerar, vilket delvis kan bero på begränsningarna när det gäller ESG-mätvärden, men också på grund av politiska åsikter, social identitet, etiska åsikter, kön eller ålder.

Nyckelord: Private Equity, CSR, Fundraising, ESG

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1. INTRODUCTION

1.1 BACKGROUND

Private equity is a type of asset class that entails purchasing, managing, and selling companies to deliver lucrative returns for the fund's investors. The sector had its start in the late 1940s when wealthy individuals and family offices started pooling their capital to invest in private corporations. With the emergence of private equity firms focusing on the acquisition, management, and sale of businesses, private equity has developed into a more institutionalized sector over time (Lerner, 2009). Private equity firms typically invest in companies that require capital to grow or restructure their operations. As the majority owner of a company, they traditionally take an active role in managing the companies they invest in, electing new leadership, or making other managerial changes to improve the company's future. Private equity is renowned for both its elevated level of risk and above-average market returns (Fraser-Sampson, 2011).

Private equity fundraising refers to the process through which a private equity firm seeks capital from various investors. Common sources of financing for private equity funds are pension funds, the public sector, investment managers, and high-net-worth individuals (Schell, 2022). The investor type relevant in this thesis is funds of funds, which rather than purchasing stocks, bonds, or other assets directly, invest in other funds.
Limited partners are the funds investors, and the fund is managed by a private equity firm (Gilligan & Wright, 2020). As the funds general partner, the private equity firm manages its assets and makes all investment decisions, as shown in Figure 1 below.

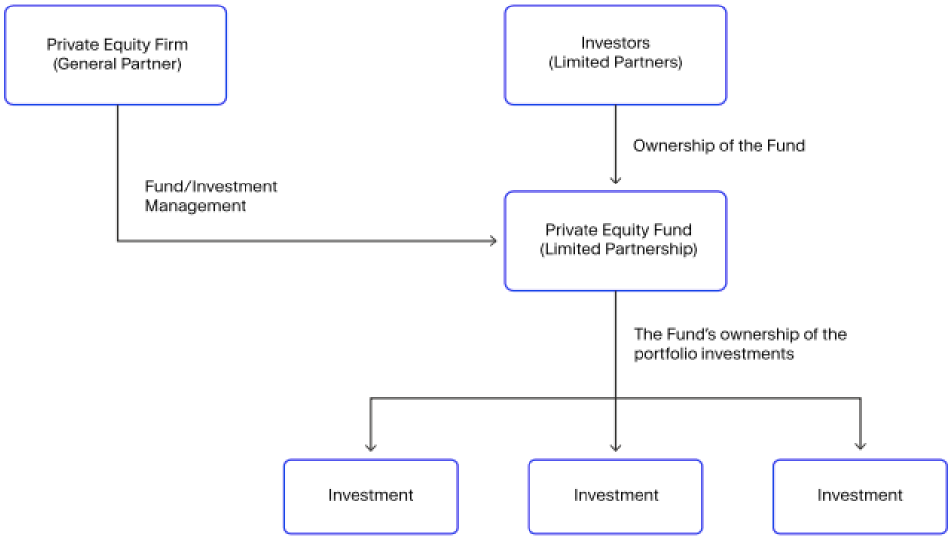

Figure 1: Private equity fund structure (Moonfare, 2023)

The amount of capital a private equity firm can raise and the returns it earns for its investors are indicators of the firm’s fundraising performance. A private equity firm's ability to attract capital is an important indicator of its reputation and track record, as well as its team and the investment strategy’s strength. The capacity of a private equity firm to raise funds determines how many investments it can make and the degree of potential return for its investors (Phalippou & Zollo, 2005).

The profits from the investments made by the private equity firm are particularly crucial since they affect the funds overall performance and play a significant role in bringing in new investors and sustaining existing ones. Typically, private equity firms strive to produce returns that are greater than those of conventional assets, such as stocks, and bonds (Gilligan & Wright, 2020).

However, throughout recent years, because the private equity market has developed considerably over the years, the fundraising process has become time-consuming and daunting since firms must compete for a limited amount of capital. Due to the increased competition for capital, private equity firms are continuously seeking for new strategies to attract investors and differentiate themselves from their competitors (Zaccone & Pedrini, 2020a). The emerging topic of corporate social responsibility (CSR) has since become an increasingly relevant subject in the private equity industry, especially in terms of fundraising. CSR refers to the actions and policies that a company undertakes to operate ethically, sustainably, and responsibly, considering the social and environmental impact of its operations (Smith, 2003).

1.2 PROBLEM STATEMENT

CSR has come to the forefront of the private equity industry partly due to the increased stakeholder and investor pressure to consider how investments will affect society, as well as a rising recognition of the value of sustainability and moral corporate conduct (Zaccone & Pedrini, 2020). Subsequently, private equity firms are becoming aware of the effects CSR may have on their portfolio companies' performance as well as their capacity to draw in and keep investors. (Crifo & Forget, 2013).

However, according to an ESG investing global private equity report 2021, published by Bain & Company (2021), the absence of empirical evidence proving the profitability of implementing CSR and ESG initiatives will keep investors doubtful about their effectiveness, resulting in skepticism among private equity investors. This indicates a significant need for additional research on how CSR impacts a private equity firm's ability to attract investors and raise capital for upcoming funds. This study’s objective is to narrow this gap in the literature by providing insight into these subjects.

1.3 RESEARCH AIM & QUESTIONS

This study aims to examine the role of corporate social responsibility in private equity fundraising, specifically whether it can serve as a means of attracting investors and facilitating the acquisition of capital for upcoming funds. To achieve this aim, the following research questions were constructed:

The first research question:

- What is the current state of knowledge in the academic literature concerning the link between private equity firms and CSR, specifically in relation to fundraising?

This research question is critical for several reasons. Shareholders are increasingly expecting private equity firms to represent their devotion to sustainable business practices, including CSR (Crifo & Forget, 2013). Understanding the relationship between CSR and fundraising can thus assist private equity firms in identifying the types of CSR approaches most likely to attract investors and in raising capital for future funds.
In addition, assessing the present academic literature on private equity firms and CSR can help identify research gaps and future research directions. Comprehending the current state of literature is vital for justifying the significance of the research. It also ensures that the current study builds on previous research and avoids duplication of effort, making research resources more effective.
Finally, this research question is of utmost importance since it serves as a tool for crafting relevant, critical, and intriguing interview questions for the data collection process. This is one of the most crucial factors to consider in this study since the quality of the interview questions greatly affects the outcome of the study's findings.

The second research question:

- How does CSR impact the ability of a private equity firm to attract investors and raise capital for upcoming funds?

This research question was chosen because it addresses an important trend in the private equity industry. As noted in the problem statement section, a recent shift in investor preferences has resulted in an amplified emphasis on CSR within the industry (Zaccone & Pedrini, 2020). The research question seeks to address the existing research gap and the limited comprehension concerning how CSR can influence a private equity firms' capability to attract investors and secure capital. Furthermore, this research question intends to provide useful insights for private equity firms regarding potential benefits, risks, and challenges that may occur when integrating CSR and ESG into their operations.

The third research question:

- How do investors assess a private equity funds CSR performance, and what is its significance in relation to other variables in their investment decisions?

This research question has been chosen due to its relevance to a critical aspect of the private equity industry. Fund investors play a crucial role in the industry as they are responsible for identifying, evaluating, and investing in private equity firms. As such, comprehending how investors evaluate and employ CSR information when making investment decisions is of high importance for private equity firms aiming to enhance their fundraising efforts (Qonita et al., 2022). Moreover, this research question aims to investigate the trade-offs that fund investors make between CSR performance and other variables, such as returns, track record, investment team, and investment strategy for example, when making investment decisions. This is crucial as it can, for example, help private equity firms balance their financial objectives and commitment to CSR. Lastly, this research question could provide valuable insights for policymakers and regulators as it can help design regulations, policies, and frameworks that encourage CSR within the private equity industry.

Overall, these research questions are highly relevant as they address important trends in the private equity industry and can provide valuable insights mostly for private equity firms and investors, yet also, policymakers and regulators. The requirement for this study seems significant, considering the fact that private equity firms stand to gain a critical advantage by comprehending how CSR may affect their capacity to draw in and keep investors committed to their funds (Zaccone & Pedrini, 2020a).

1.4 RESEARCH METHODOLOGY

The study conducted individual semi-structured interviews with five fund managers from Europe and the Nordics. The sample size was suitable for qualitative research where the objective is to obtain a thorough knowledge of a small group instead of generalizing a broader population (Crabtree, 1999). The semi-structured approach was considered optimal because it allowed for detailed and in-depth responses through open-ended questions, without compromising the structure necessary for analyzing and presenting the results. Further, because of the complex and multifaceted topic, the flexibility that a semi-structured approach offers was necessary.

The decision to conduct individual interviews instead of focus groups was mainly due to the limited options available for this particular study. Even if focus group interviews were feasible, they would not have been as beneficial as individual interviews for this research. This is because individual interviews are more suitable for gathering comprehensive and nuanced information about the participants experiences and viewpoints, which was necessary for the study. (Chirban, 1996).

It was important to carefully choose respondents for the research by considering their unique qualities and credentials that match the research questions. Investors with prior experience in investing in private equity funds were chosen as they have the necessary expertise and experience to provide insightful answers. Sentica Partners fundraising network was used to find respondents who have the necessary expertise and credentials for this study. The part of their fundraising network that was interviewed was their funds of funds investors, since they are the largest investor type, representing over half of the capital in Sentica Partners previous fund. Additionally, diverse types of investors have unique characteristics and preferences, so studying multiple types of investors could have diluted the specificity of the research findings. By studying one investor type, the research was able to provide more precise insights and recommendations.
The interviews were mostly conducted by video conferencing, and one respondent answered via email due to time constraints. Informed consent was obtained from each participant before the interviews to ensure they were aware of the study's objectives, their

rights, and the confidentiality and anonymity of their responses. Thematic analysis was used to analyze the data collected from the interviews, which is a method suitable for small sample sizes, as it enables researchers to explore specific topics and issues within the data (Clarke et al., 2015).

1.5 RESEARCH STRUCTURE

This research paper is structured into several sections, including an introduction, a literature review, a methodology chapter, a data presentation & analysis chapter, a results chapter, and a discussion & conclusion chapter. The introduction provides a brief overall understanding of the private equity industry and its fundraising process and further presents the research questions and the aim of the study. The literature review gives an overview of the existing literature on the relationship between CSR and private equity firms, and how private equity fund investors consider CSR in their investment decisions. The methodology section explains the chosen method for the research, participant selection, data collection, and data analysis methods. The data presentation & analysis chapter presents the data on and the analysis of this thesis. Whereas the results chapter presents the findings of this study, which are organized by the themes and patterns that emerged from the analysis. Finally, the discussion & conclusion chapter summarizes the main findings and their implications for the research questions, as well as offers suggestions for future research in the field.

1.6 LIMITATIONS

This research focused on a select type of investor (funds of funds) from a particular private equity firm, Sentica Partners. The limited sample size may not ensure an accurate reflection of the whole private equity market, and therefore its findings may not apply to other private equity firms, restricting the generalizability of the study.
Regarding the analysis of the data, there are several limitations to be aware of when conducting a thematic analysis.

Thematic analysis is a methodology defined by its subjective nature, wherein data interpretation can be heavily influenced by the researcher's own biases. This subjectivity, in turn, might undermine the validity of the findings generated. Furthermore, the lack of a consistent procedure for performing thematic analysis and widely acknowledged standards for assessing the dependability of results makes examining the trustworthiness of thematic analysis findings challenging. However, by taking a systematic and transparent approach to data analysis to address potential biases and enhance trustworthiness, one can mitigate the limitations of thematic analysis and produce reliable and valid findings (Braun & Clarke, 2012).

In addition, the findings are based on the respondents self-reported data, which does not always precisely reflect their genuine thoughts or behavior and has the potential to be misleading. Meaning that the self-reported dataset in this research may not be a valid reflection of the link between corporate social responsibility and private equity fundraising performance.

This research focuses on one specific variable (CSR) regarding private equity fundraising and does not thoroughly consider other important variables that impact a private equity firms fundraising efforts, leading to a limited understanding of the complete picture. Furthermore, the research does not offer a quantitative explanation of the link between corporate social responsibility and private equity fundraising performance since it only uses qualitative data gathered via interviews. This lack of quantifiable data may make it more difficult to conduct accurate comparisons and form firm conclusions.

Lastly, future research could address these limitations by conducting a larger and more diverse sample, employing quantitative research methods, increasing methodological rigor, using alternative data collection methods, and considering other variables.

1.7 DEFINITION OF TERMS

CSR criteria: CSR criteria refer to a set of standards or guidelines used to assess a company’s social and environmental performance and impact, including factors such as environmental sustainability, ethical business practices, and social responsibility (Tsang et al., 2021).

CSR performance: Refers to a company’s success in implementing sustainable and ethical practices that positively impact its stakeholders and the environment (Gjølberg, 2009).

Double materiality (ESG): A double materiality is an approach to environmental, social, and governance (ESG) risk assessment that considers both the financial impact on companies and the impact of companies on the environment and society (Chiu, 2022).

Due diligence: The process of conducting a thorough investigation of a company’s financial and operational performance before investing (Duke, 2015).

Environmental, Social, and Governance (ESG): A set of standards used by investors to evaluate a company’s sustainability practices and ethical behavior (Koller et al., 2019).

Funds of funds (FoFs); Investment vehicles that invest in multiple underlying investment funds rather than directly investing in individual securities or assets. The primary goal of FoFs is to achieve greater diversification and risk management by spreading investments across a variety of funds with different asset classes, strategies, and management styles(Lai, 2006).

Greenwashing: Greenwashing is a practice in which companies make false or misleading claims about the environmental or social benefits of their products or services(de Freitas Netto et al., 2020).

Impact fund: An impact fund is a type of investment fund that aims to generate both financial returns and social or environmental benefits by investing in businesses that pursue a sustainable and socially responsible agenda (Chiappini, 2017).

Investment committee: An investment committee is a group of professionals responsible for making investment decisions on behalf of an investment fund or portfolio (Klein, 1998).

License to operate (LTO): This is the level of social acceptance a business or organization has from its stakeholders, including government, employees, customers, and the community, to carry out its operations (Howard-Grenville et al., 2008).

Limited partners: Investors who provide capital to a private equity fund but do not play an active role in managing the fund's investments (Gilligan & Wright, 2020).

Market conditions: Market conditions refer to the state of a particular market, including factors such as supply and demand, competition, regulatory environment, and economic trends that can impact the performance of investments (Baum & Tolbert, 1985).

Market maturity: Market maturity refers to the stage of development of a particular market, including the level of competition, regulatory environment, and the availability of investment opportunities (Jacobs, 2016).

Policy goals: Policy goals refer to the objectives and targets set by policymakers and regulatory bodies to address social, economic, and environmental challenges and promote sustainable development (Quental et al., 2011).

PRI (United Nations Principles for Responsible Investment): The United Nations Principles for Responsible Investment (PRI) is a set of guidelines and best practices for investors to integrate environmental, social, and governance (ESG) factors into their investment decision-making process (Kim & Yoon, 2023).

Risk avoidance: Risk avoidance refers to a risk management strategy that seeks to eliminate or reduce the likelihood of potential risks that could negatively impact an organizations operations or investments (Arshad & Ibrahim, 2019).

Shareholder Activism: A strategy where investors use their ownership stake in a company to influence its actions and policies, often to promote socially responsible practices (Goranova & Ryan, 2014).

Sustainable Development Goals (SDGs): A set of 17 goals established by the United Nations to address global social and environmental challenges (Hák et al., 2016).

Team (PE): The team in private equity (PE) refers to the group of professionals responsible for managing a private equity fund or portfolio, including investment managers, analysts, and support staff (Gilligan & Wright, 2020).

Track record (PE): A track record in private equity (PE) refers to a firms historical performance and reputation in managing investments and generating returns for investors (Gilligan & Wright, 2020).

Value Creation: Value creation refers to the process of generating financial returns and other benefits for a company or investment portfolio through strategic decision-making, innovation, and optimization of operational efficiencies (Loos, 2007)

2. LITERATURE REVIEW

In this section, an overview of corporate social responsibility literature and its implications on the private equity industry will be provided, with a focus on how they apply to fund managers investment strategies.

2.1 CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) refers to the actions taken by companies to address the social, environmental, and economic impact of their operations (Carroll, 1991). It is a voluntary concept that goes beyond compliance with laws and regulations and encompasses a company's impact on all its stakeholders, including employees, suppliers, customers, communities, and the environment (Carroll, 1991). Private Equity firms, as investors and owners of companies, play a vital role in shaping the CSR of their portfolio companies (Lindgreen & Swaen, 2010).
Corporate Social Responsibility (CSR) activities encompass a wide range of actions that go beyond traditional business operations. Examples of CSR activities include philanthropy, environmental initiatives, ethical business practices, corporate governance, and human rights Carroll, 1991).

Philanthropy refers to charitable giving and community engagement programs, which enable companies to give back to society and make a positive impact on their local communities Carroll, 1991). Environmental initiatives include activities such as reducing carbon emissions, implementing sustainable business practices, and investing in renewable energy (Matten & Moon, 2004). Ethical business practices include promoting fair labor practices, anti-corruption, and anti-bias policies (Smith, 2003). Corporate governance includes transparency, accountability, and responsible decision-making (Lindgreen & Swaen, 2010). Finally, human rights include promoting diversity and inclusion and protecting the rights of workers (Rasche, 2020). These activities can help a firm to address the social, environmental, and economic impact of its operations (Porter & Kramer, 2006).

Understanding how these CSR practices affect firms financially is complex. Scholars have spent decades attempting to provide a business case which shows that when firms integrate sound CSR practices, it would increase their bottom line. However, Barnett (2007) asserts that the business case has not been validated. Barnett (2007) theorizes that in many ways, through time, accounting and financial tools have been established to support a lot of managers gut instincts when they invest in initiatives like research & development and advertising that do not immediately generate a profit, but such tools do not yet exist for CSR practices.
The reason behind this according to Widyawati (2020) could be the quality and reliability of environmental, social, and governmental (ESG) metrics. ESG metrics are used to measure the level of CSR performance of a firm, which is why they are crucial when trying to understand the relationship between CSR and the financial performance of a firm. Widyawati (2020) argues that there is a lack of openness since ESG data providers and rating agencies do not provide enough information about the procedures and methodology they use to develop these metrics or the quality of the data utilized in the process. Widyawati (2020) further argues that various rating agencies may assign different ratings to the same firm due to variances in data collecting and procedures, which makes measuring the relationship between CSR performance and financial performance inconsistent.

However, there have been a few studies that indicate the financial benefits of sound CSR practices. A study by Friede et al. (2015) combined the findings of around 2200 individual studies which researched the relationship between environmental, social, and governance (ESG) criteria and corporate financial performance (CFP). Roughly ninety percent of studies found a nonnegative CSR–CFP relation. More importantly, the large majority of studies reported positive findings. Additionally, in a 2007 study, Bollen (2007) researched the patterns of investor cash flows in socially responsible mutual funds (mutual funds that invest in companies with sound CSR practices). Bollen (2007) found that in comparison to traditional funds, socially responsible funds had reduced the monthly volatility of investor cash flow. Bollen (2007) further noticed that cash flows into socially responsible funds are more sensitive to lagged positive returns than cash flows into conventional funds. Furthermore, the author found that cash flows out of socially responsible funds are less sensitive to lagged negative returns.

Another research by Margolis & Walsh (2003) reviewed 109 studies that analyzed the complex relationship between CSR performance and corporate financial performance. Margolis & Walsh (2003) found that 54 (e.g.; Bragdon & Karash, 2002; and Jones & Murrell, 2001) of the 109 studies reported a positive relationship between corporate social responsibility and financial performance, while just seven (e.g.; Johnson & Greening, 1999; and Patten, 1991) found a negative one, and the rest found no correlation.

On the contrary, there have been studies indicating the opposite. Renneboog et al., (2008) and Cornell & Damodaran (2020) argue that although CSR has been demonstrated to relate to increased shareholder value, there is no conclusive proof of correlation. Yet instead, recent portfolio-level research has indicated that socially responsible investment funds underperform conventional funds. Cornell & Damodaran (2020) argue that there are businesses that profit from being socially responsible, but there are other businesses where CSR has large costs with very few advantages. Cornell & Damodaran (2020) further indicate that there is a common misconception regarding successful companies and their CSR practices. They argue that in most cases, companies first become successful, and later integrate CSR practices into their operations. Indicating that CSR practices are rather a sequel to success and not the reason behind it.

2.2 CORPORATE SOCIAL RESPONSIBILITY & PRIVATE EQUITY

Over the past decade, there has been a growing interest in the relationship between CSR and financial markets, particularly in the private equity sector. Studies have shown that private equity fund investors have been increasingly incorporating CSR concerns into their investment strategies.

Crifo & Forget (2013) explored this phenomenon in the French private equity market and found that CSR integration by private equity firms is defined by shareholder activism and strategically driven by a demand for new value creation sources and enhanced risk management. Zaccone & Pedrini (2020) and Indahl & Jacobsen (2019) similarly found that private equity firms tend to have two main motivators for integrating CSR into their operations; risk management and value creation.

The risk management approach involves identifying and addressing potential risks associated with CSR to protect the private equity firm's investments and ensure long-term financial performance. This can include identifying and addressing environmental, social, and governance risks that may affect a portfolio company's operations and reputation. This can also include ensuring compliance with laws and regulations related to CSR, such as environmental protection laws and labor laws (Zaccone & Pedrini 2020; Crifo & Forget 2013; Indahl & Jacobsen 2019).

The value creation approach involves capitalizing on opportunities related to CSR to drive long-term financial performance and generate additional value for their portfolio companies. This can be identifying new products or services that align with changing consumer preferences or regulations, identifying new markets or customer segments, improving the firm brand and reputation, or developing new business models that incorporate sustainability (Zaccone & Pedrini 2020; Crifo & Forget 2013; Indahl & Jacobsen 2019; Chernev & Blair 2015).

2.2.1 Risk avoidance through CSR integration for Private Equity firms

Zaccone & Pedrini (2020) argue that between value creation and risk avoidance, the latter is the dominant one. This is because Zaccone & Pedrini (2020) found that private equity firms tend to focus on identifying the minimum levels of CSR integration required to protect the companies in their portfolios from potential risks and scandals, rather than recognizing and quantifying value-creating business opportunities offered by CSR factors. Besides Zaccone & Pedrini (2020), a fair amount of additional academics have sought to further analyze how CSR integration is used for risk aversion.

In a paper published in 2015, Crifo et al., (2015) designed a novel framed field experiment in which experienced private equity investors participated in closed bids to purchase fictitious corporations. They discovered that firm valuation and investment decisions are influenced by corporate non-financial (CSR) performance disclosure. Crifo et al., (2015) identified an asymmetric effect in which shareholders react more to poor CSR practice disclosure than to positive CSR practice disclosure. In their field experiment, they found that irresponsible policies reduced firm prices by 12%, whereas responsible policies boosted a firm price by 4% for CSR factors. This would explain Zaccone & Pedrinis (2020) findings on why private equity firms tend to prioritize risk aversion since it seems that poor CSR practices have a relatively larger effect than good CSR practices.

Additionally, Van Duuren et al. (2016) noticed that a large number of traditional fund managers have started to include CSR factors as part of their investment approach. More importantly, the authors also noticed that CSR is primarily used for risk management and red flagging. Przychodzen et al. (2016) similarly found that CSR due diligence among fund managers is mostly used to mitigate risk and is often motivated by herding and is far less essential as a strategy for creating additional value.

Private equity firms can use CSR integration for risk avoidance by implementing them in their portfolio companies. By implementing sustainable business practices and promoting corporate social responsibility, private equity firms can help their portfolio companies mitigate potential risks and avoid negative publicity (Ashwin Kumar et al., 2016). For example, a private equity firm might invest in a company that produces a lot of waste, but then implement recycling programs and waste reduction initiatives to mitigate the environmental risks (Verheyden et al., 2016). Additionally, they could implement employee development programs to mitigate social risks and increase employee satisfaction. Furthermore, by promoting good governance practices, such as transparency and accountability, private equity firms can help their portfolio companies avoid governance-related risks (Przychodzen et al. 2016).

Overall, by integrating CSR into their operations, private equity firms can better identify and mitigate potential risks, avoid scandals and reputational damage.

2.2.2 Value creation through CSR integration for Private Equity firms

Besides risk aversion, value creation is another way private equity firms approach CSR, perhaps with a more optimistic view. Zaccone & Pedrini (2020), Crifo & Forget (2013), and Indahl & Jacobsen (2019) all argue that when a firm integrates CSR practices into their operations, they besides risk aversion may also strive for new ways to create value.

A handful of studies have been dedicated to researching how a firm can create value through CSR integration. In a 2021 study, Visser (2021) examined the relationship between CSR performance and takeover premiums in a private equity context. According to Visser (2021), the bid premium given by PE acquirers was positively impacted by target CSR disclosure, more importantly, the authors found a significant correlation between target CSR performance and the bid premium, including multinational mergers. The authors also discovered a slight, positive link between target CSR and deal completion time. Finally. Visser (2021) suggests that sound CSR performance can enhance stakeholder satisfaction and improve shareholders returns by raising eventual acquisition premiums.

Regarding how integrating CSR can affect a firms market valuation, Przychodzen & Przychodzen (2013) researched whether integrating sustainability into company strategy may result in a higher-than-average market valuation. The authors found 85 firms that fulfilled the CSR criteria from the Standard & Poor's (S&P) 500 during the years 2006 to 2010. The authors found that investing in firms with CSR as part of an investing approach would have generated superior returns of 7.4% per year throughout the period. Further, Przychodzen & Przychodzen (2013) indicate that businesses with a healthy balance of financial, social, and environmental operations saw slower revenue growth, less unpredictable growth, and less volatile stock prices. Additionally, Przychodzen & Przychodzen (2013) demonstrate that investing in businesses with sound CSR practices may lead to stronger stock market collapse resilience.

Similarly, Gómez-Bezares et al. (2016) investigated the influence of CSR on FTSE 350 stock market performance, during the period from 2006 to 2012. The authors discovered that an investing strategy that purchased shares in businesses with balanced financial, social, and environmental activities would have gained 3.54 percent per year, and 2.98 percent more than industry standards. Furthermore, Gómez-Bezares et al. (2016) also noticed that sustainable investments are less volatile regarding stock returns, indicating that investing in firms with corporate sustainability not only creates greater returns during peak phases but also reduces investors losses throughout market bear phases.

Regarding how CSR incorporation affects risk-adjusted returns, Ashwin Kumar et al. (2016) found evidence that stock performance is linked with CSR factors. The authors noticed that CSR factors bring lower volatility and therefore lower risk and consequently higher risk-adjusted returns. Verheyden et al. (2016) conducted research with similar findings. Verheyden et al. (2016) found that when utilizing a screening method that effectively excludes businesses with the lowest 10% of ESG rankings, the authors observed a positive contribution to risk-adjusted returns on both global and developed markets.

However, despite the studies that clearly show how ESG integration creates value, some studies question the claim. In contrast to Przychodzen & Przychodzen (2013) and Gómez-Bezares et al. (2016) findings, Halbritter & Dorfleitner (2015) researched the relationship between the CSR and financial performance based on environmental, social, and corporate governance (ESG) ratings. The authors analyzed ESG data from ASSET4, Bloomberg, and KLD for the United States market from 1991 to 2012. Halbritter & Dorfleitner (2015) discovered that there was no significant return gap between firms with good and poor ESG ratings. According to Halbritter & Dorfleitner (2015), investors should not expect extraordinary profits by trading a portfolio with either good or poor ESG ratings. Additionally, Borgers et al. (2015) analyzed the holdings of American equity consisting of mutual funds from 2004 to 2012 to determine the economic relevance of CSR factors in investment decisions. Borgers et al. (2015) found that the yearly risk-adjusted return difference between a portfolio of funds with the highest sin stock (the stock of an unethical company) exposure and its lowest-ranked counterparts was vanishingly small.

In conclusion, multiple studies have shown that integrating CSR into a firm's operations can lead to value creation in several ways. Firms with responsible CSR practices have been found to have higher firm valuations and investment decisions influenced by non-financial CSR performance disclosure (Crifo et al., 2015). Sound CSR performance can also enhance stakeholder satisfaction and improve shareholders returns (Visser, 2021; Przychodzen & Przychodzen, 2013; Ashwin Kumar et al., 2016). Companies with sound CSR practices are also seen to be less volatile, leading to higher risk-adjusted returns (Gómez-Bezares et al., 2016; Verheyden et al., 2016). While some studies (eq; Halbritter & Dorfleitner 2015; Borgers et al. 2015) have cast doubt on these claims, the overall trend indicates that CSR integration can lead to value creation for firms.

2.3 THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY FOR PRIVATE EQUITY FUND INVESTORS

CSR has become an increasingly prominent issue for investors, as it can affect a company's reputation, financial performance, and risk profile (Margolis & Walsh, 2001). Private equity firms, as investors and owners of companies, play a vital role in shaping the CSR of their portfolio companies. Similarly, their fund investors also must consider CSR when making investment decisions (Orlitzky et al., 2003). CSR is relevant to investors in private equity funds for several reasons according to research.

First, CSR can help investors identify and manage potential risks in their investments. For example, an investor in a private equity fund that is aware of the environmental impact of the fund's portfolio companies can take steps to mitigate those risks, such as investing in funds that prioritize sustainable business practices (Branco & Rodrigues, 2006; Orlitzky et al., 2003). Second, CSR can help investors create long-term value for their investments by ensuring that the companies in which they invest are sustainable and responsible in the long term (Margolis & Walsh, 2001; Waddock & Graves, 1997). A company that is viewed positively by society and the environment is more likely to be successful in the long term (Orlitzky et al., 2003). Third, CSR can play a significant role in enhancing a company's reputation and building a positive brand image (Khojastehpour

& Johns, 2014). Private equity funds that are seen as socially responsible are more likely to be viewed positively by potential investors, customers, and other stakeholders (Indahl & Jacobsen, 2019). Fourth, many countries have regulations that require companies to disclose information about their CSR activities, such as their environmental impact, or fair labor practices (European Commission, 2011). Private equity funds that are unaware of these regulations could be at risk of non-compliance, which could lead to penalties or legal action, which would affect them as an investment negatively (Branco & Rodrigues, 2008). Lastly, CSR can be used as a proxy for good governance and can affect the overall performance of the fund (Orlitzky et al., 2003).

2.3.1 Measuring CSR performance in investment decisions

There is a growing body of research that suggests that fund managers consider CSR as part of their due diligence process when evaluating investment opportunities in private equity firms. Studies by (e.g.; Branco & Rodrigues, 2006; Orlitzky et al., 2003) support this claim.

Regarding how fund managers assess a private equity's CSR performance, it is important to further understand the variety of tools and methodologies that fund managers use to evaluate a private equity firms CSR performance.
Fund managers have various tools and methodologies at their disposal to evaluate a private equity firms CSR performance. One such tool is sustainability reporting, which allows companies to disclose information about their CSR activities, such as their environmental impact or fair labor practices. According to a study by Branco & Rodrigues (2006), these reports, which are often compliant with the Global Reporting Initiative (GRI) guidelines, provide fund managers with a comprehensive understanding of a company's environmental and social performance, governance, and management systems. This helps fund managers identify potential risks and opportunities and make informed investment decisions.

Another tool that investors use is Environmental, Social, and Governance (ESG) ratings, which evaluate a company's performance on environmental, social, and governance issues. According to Branco & Rodrigues (2006), these ratings, provided by rating agencies such as MSCI, Sustainalytics, and RobecoSAM, use a combination of quantitative and qualitative data to evaluate a company's performance on a wide range of ESG issues. This helps fund managers identify companies that are leaders in terms of sustainability and corporate responsibility and make informed investment decisions.

In addition to sustainability reporting and ESG ratings, fund managers also use CSR performance metrics, such as carbon footprint, energy consumption, employee satisfaction, and community engagement, to evaluate a private equity firms CSR performance. According to Orlitzky et al., (2003), these metrics are usually developed by industry-specific organizations or by rating agencies and help fund managers identify potential risks and opportunities. This helps fund managers identify companies that are outperforming their peers in terms of sustainability and corporate responsibility and make informed investment decisions.

Stakeholder engagement is another tool that fund managers use to evaluate a company's CSR performance. According to a study (Carroll, 1991), by engaging with the company's stakeholders, such as employees, customers, suppliers, and community members, fund managers can gain valuable insights into a company's CSR performance. This can be used to identify potential risks and opportunities and make informed investment decisions.

Finally, fund managers may also conduct due diligence on a private equity firms CSR performance by reviewing company documents and interviewing company management to understand their CSR policies, practices, and performance (Deegan & Rankin, 1996). This includes reviewing the company's CSR reports, policies, and procedures, and assessing the company's performance against industry benchmarks and standards. This due diligence can help fund managers to better understand a company's CSR performance and identify potential risks and opportunities.

2.3.2 Determinants behind CSR preferences among investors

Fund managers may prioritize Corporate Social Responsibility (CSR) in their investment decisions for several reasons. One main rationale is the potential for the positive environmental and social impact of a company (Carroll, 1991). By investing in companies that operate in sectors such as renewable energy, technology, and healthcare, fund managers may believe they are making a positive contribution to society and the environment, while also aligning with their own social and environmental objectives (Orlitzky et al., 2003).

Regarding the likelihood of a fund manager committing to an investment strategy that focuses on investing in firms with sound CSR practices regardless of industry or sector, (Deegan & Rankin, 1996) found that in an institution with a decentralized investment decision, employees are more likely to pursue maximizing expected returns and less likely to risk implementing less financially lucrative investments based on CSR performance. They argue that it is more likely that investment policies based on CSR performance will be constructed, authorized, and executed in an institution where investment choices are centralized through a Chief Investment Officer.

Since Sentica Partners is a Finnish PE firm, with investors around Europe, especially the Nordics, the differences in how fund managers from different nationalities account for socially responsible investments are intriguing. In a 2013 study, Scholtens & Sievänen (2013) aimed to identify what causes the significant disparities of CSR socially responsible investing across the Nordic nations and whether features in economics, finance, culture, and institutions influence socially responsible investing. Scholtens & Sievänen (2013) found that despite their evident similarities in economic, social, and CSR progress Finland, Sweden, Norway, and Denmark's socially responsible investments sizes and structure varies substantially.

Scholtens & Sievänen (2013) found that In Denmark, interest in socially responsible investing stems from discoveries of ethical violations. Socially responsible investing is now mandatory for Danish public retirement funds, and it is generally promoted by the

Danish government. Regarding Finland, Scholtens & Sievänen (2013) found that it is the smallest market and socially responsible investing is not a longstanding tradition and has no laws governing the corporate social responsibility of businesses or investors. However, institutional investors play a vital role in Finland. When it comes to Norway, Scholtens & Sievänen (2013) found that it is by far the largest market. Norwegian socially responsible investing is heavily influenced by the activities of the Norwegian Petroleum Fund, which serves as an example for responsible shareholders across the world. Furthermore, the majority of socially responsible investing in Norway is the norm- and value-based investments. In Sweden, Scholtens & Sievänen (2013) found that the various institutional investors and national retirement funds are prominent proponents of socially responsible investing, which are regulated to guarantee that ethical considerations are considered. Additionally, Scholtens & Sievänen (2013) noted that CSR-focused investing undoubtedly fits well with feminine civilizations like Norway and Sweden.

According to research, numerous additional factors can influence an investors attitude toward CSR preferences in their investment strategies such as nationality, political views, social identity, ethical views, gender, and age. According to van Duuren et al. (2016), the investors nationality has a significant impact on their CSR preference, with U.S. investors being less hopeful about the advantages of socially responsible investments in terms of profitability compared to European and U.K. managers. Hong & Kostovetsky (2012) found that investors who support Democratic campaigns invest less of their capital in companies with sound CSR practices. McLachlan & Gardner (2004) found that socially responsible investors perceived ethical concerns as more essential and were defined by higher quality standards and overall degrees of ethical awareness. Bauer & Smeets (2015) found that investors with a strong social identity contribute much more of their capital to investments, and is usually more common among highly educated, younger, and low-wealth investors. Huang et al. (2014) noted that females and adolescents are more likely to have environmentally friendly preferences, and De Silva & Pownall (2014) found that gender and education, rather than income levels, are significant contributors to CSR preference.

2.4 SUMMARY OF LITERATURE REVIEW

Scholars have attempted to show a link between responsible corporate behavior and financial performance, but studies have not provided conclusive proof, this can be because of the lack of reliable and comprehensive ESG metrics. Some studies suggest potential benefits, while others argue that investment funds containing firms with sound CSR practices may underperform conventional funds and that CSR integration is often a result of success rather than the cause of it.

Regarding CSR and Private Equity firms, studies have shown that private equity firms have been increasingly incorporating CSR concerns into their operations. Private equity firms approach CSR integration through two main approaches: risk management and value creation. Risk management involves identifying and addressing potential risks associated with CSR. Whereas value creation involves capitalizing on opportunities related to CSR to drive long-term financial performance and generate additional value for their portfolio companies. Research suggests that private equity firms however tend to focus on risk avoidance through CSR integration rather than recognizing and quantifying value-creating business opportunities offered by CSR factors.

CSR is also becoming increasingly important for investors, particularly in the private equity sector. Studies have shown that investors are considering CSR as part of their due diligence process when evaluating investment opportunities in private equity firms. Fund managers use various tools and methodologies such as sustainability reporting and ESG ratings to evaluate a private equity firms CSR performance to identify potential risks and opportunities and make informed investment decisions. Finally. there are significant differences in how investors from different nationalities account for CSR in their investments, additionally, a range of factors such as political views, social identity, ethical views, gender, and age can influence investors CSR preferences.

3. METHODOLOGY

This chapter describes the research methodology utilized in this paper. It covers the fundamentals of qualitative research interviews, reasons behind the choice of method, the sample selection process, the data collection & analysis methods used in this paper, and lastly ethical considerations.

3.1 QUALITATIVE RESEARCH INTERVIEWS

This paper conducted qualitative research interviews, a form of research approach that includes gathering data from individuals or small groups via open-ended and in-depth discussions (Warren & Karner, 2005). These interviews are frequently used to investigate complicated social phenomena to gain a better understanding of peoples subjective experiences, viewpoints, and opinions (DiCicco-Bloom & Crabtree, 2006). They are especially beneficial when one wants to grasp the significance that others attach to their experiences or when one wants to delve deeply into a subject (Warren & Karner, 2005). The goal of a qualitative research interview is to add to a body of theoretical or conceptual knowledge based on the implications that respondents' experiences hold.

The choice of using qualitative research interviews in this study was based on the research needs. Specifically, the interview method was selected to gain a deep understanding of other people's ideas by using open-ended questions to obtain detailed answers, which helped in developing a thorough understanding of the subject matter (DiCicco-Bloom & Crabtree, 2006). Furthermore, when researching complex social issues, qualitative research interviews are highly recommended as they allow the exploration of multiple dimensions of the problem and facilitate comprehension of interactions and influences among various variables. In a confidential and secure environment, qualitative research interviews provide individuals with the opportunity to share their opinions and experiences on sensitive or contentious topics (Chirban, 1996). They are also an effective way to obtain information from a specific demographic or a small group of people (DiCicco-Bloom & Crabtree, 2006). Finally, qualitative research interviews can be instrumental in developing fresh perspectives and identifying trends in new or emerging fields (Warren & Karner, 2005).

3.2 CHOICE OF METHOD

When deciding which type of approach to use for conducting the interviews, it became evident that it was necessary to fully grasp the differences between the interview types. Structured, semi-structured, and unstructured research interviews are the three primary types of qualitative research interviews (DiCicco-Bloom & Crabtree, 2006).
Structured interviews are a form of research technique where the interviewer asks questions in a preset sequence. These questions are posed consistently to each participant and are intended to facilitate particular information from the respondents (Gill et al., 2008). Structured interviews are intended to get precise and comparable data from each respondent. Because they make it possible for researchers to gather data accurately and regularly from a large number of participants, structured interviews are frequently employed in large-scale research projects like surveys or clinical studies (Britten, 1999). They are beneficial for researchers who wish to compare data from various groups of individuals or monitor trends over time (Gubrium & Holstein, 2001). Hence, this method is not optimal for this research.

Structured interviews are a research method where the interviewer asks every participant a predetermined set of questions in a consistent order (Gill et al., 2008). The method is used to collect specific information from each respondent and gather precise and comparable data, which is useful in large-scale research projects like surveys or clinical studies (Britten, 1999). Because of this, structured interviews were not optimal for this research.
Unstructured interviews, in contrast, are a form of research method in which the interviewer does not ask a preset list of questions. Instead, the interviewer lets the conversation flow spontaneously and follows the respondents lead (DiCicco-Bloom & Crabtree, 2006). Unstructured interviews are flexible and creative since they are open-ended, they are frequently used in qualitative research because they allow the researcher

to delve deeply into a topic while also understanding the interviewees subjective experiences and viewpoints (Gubrium & Holstein, 2001). They are beneficial when the researcher wants to understand the meaning that individuals place on their experiences or when the study issue is complicated and diverse (Gill et al., 2008). However, the data acquired with this approach can be complex to analyze and compare.

Finally, semi-structured interviews are a research approach that is a combination of structured and unstructured interviews. They include a pre-planned series of questions or subjects that the interviewer intends to cover, but the interviewer also allows for flexibility and enables the conversation to evolve spontaneously (DiCicco-Bloom & Crabtree, 2006). Semi-structured interviews are frequently employed in qualitative research because they allow the researcher to delve deeply into a subject while still obtaining standardized and comparable data (Gubrium & Holstein, 2001). When the study subject is complicated and multidimensional, and the researcher is interested in understanding the meaning that individuals attach to their experiences, semi-structured are optimal (Gill et al., 2008). Semi-structured interviews are a combination of structured and unstructured interviews, which means they carry the benefits and drawbacks of both interview approaches (Gubrium & Holstein, 2001).

After carefully considering the different approaches for this study, it became clear that individual in-depth semi-structured interviews would be most beneficial for this study. Since this study interviewed five fund managers from around Europe and the Nordics, a semi-structured approach was optimal because of the depth and detail open-ended questions allow, while simultaneously not sacrificing structure for the analysis and results sake. Further, because of the complex and multifaceted topic, the flexibility that a semi-structured approach offers was necessary.

The study conducted individual interviews instead of focus groups because that was the only feasible option, but even if focus groups were possible, individual interviews were more suitable for the study. Individual interviews are better at exploring thoughts, feelings, and experiences in depth, and allowing the researcher to collect detailed and nuanced data about the participants experiences and perspectives. They also provided a more detailed understanding of the participants experiences and perspectives than focus group interviews (Chirban, 1996). Additionally, individual interviews are less intimidating than group interviews, which can lead to more honest responses (Douglas, 1985.

3.3 SAMPLE SELECTION

Purposive sampling is a technique for choosing study participants when the researcher actively selects the respondents based on predetermined criteria (Etikan et al., 2016). In contrast, random sampling involves choosing people at random from a broader population. In purposive sampling, the participant selection criteria are crucial (Etikan et al., 2016). When choosing respondents, it was important to examine the unique qualities and credentials suitable for the research questions. In this instance, private equity fund investors who had prior experience investing in private equity funds were chosen, since these individuals were likely to have the expertise and experience essential to offer insightful answers to the research question. Sentica Partners fundraising network was used to find respondents who have the necessary expertise and credentials for this study. The primary reason behind this was that this study was done in partnership with Sentica Partners, which presented a rare opportunity to interview their fundraising network. The part of their fundraising network that was interviewed was their funds of funds investors, since they are the largest investor type, representing over half of the capital in Sentica Partners previous fund. Additionally, distinct types of investors have unique characteristics and preferences, so studying multiple types of investors can dilute the specificity of the research findings. By studying one investor type, the researcher can provide more precise insights and recommendations.

Even though the research had a smaller sample size, it was suitable for qualitative research where the objective is to obtain a thorough knowledge of a small group instead of generalizing a broader population (Crabtree, 1999). In qualitative research, smaller sample sizes are frequently used to give more thorough information on the experiences and viewpoints of the participants.

3.4 DATA COLLECTION

The interviews were conducted by video conferencing by large, one respondent answered the interview questions in text form via email, because of time limitations. The usage of video conferencing is also a method of overcoming geographical obstacles, allowing researchers to collect data from people situated all over the world. Further, it allows respondents to stay in their familiar environments which can encourage them to speak openly and freely (Warren & Karner, 2005).

The interviews were recorded and documented, which allowed for a more thorough analysis of the data. By recording the interviews, it was made sure that no crucial information was ignored. By transcribing the interviews, it was possible to analyze the data in greater detail and spot trends and themes that develop (Chirban, 1996).

The interview questions used in the study were derived from the literature review, which identified the key topics to be covered. These questions were designed to gather important information from each participant and explore their thoughts and experiences on CSR in private equity fund investing. By using the same set of questions with each participant, the study ensured that the results were comparable across participants.

3.5 DATA ANALYSIS

The data collected from the respondents were analyzed using thematic analysis. Thematic analysis is a prominent method in qualitative research because it enables researchers to identify and organize key themes and patterns in data (Clarke et al., 2015). The process of thematic analysis involved several stages, including transcribing recorded interviews into a textual form, identifying patterns and themes, organizing codes into larger categories, and drawing links and linkages between the topics (Braun & Clarke, 2012).

The reason the thematic analysis method was chosen was because of the study's small sample size. Since a thematic analysis only presents the common patterns and themes that rise from the data, it seemed like an appropriate choice of method. Additionally, this approach is well-suited for small sample sizes because it allows for the exploration of specific topics and issues within the data, rather than relying on statistical techniques that require a larger sample size (Terry et al., 2017). Thematic analysis also allows for the examination of the data in a more in-depth and nuanced manner, providing a more thorough understanding of the experiences and perspectives of the participants (Alhojailan, 2012), which is especially beneficial when working with a small sample of participants who have unique or specific experiences.

3.6 ETHICAL CONSIDERATIONS

Before the interview, each participant's informed permission was achieved. This was done to make sure that the participants consent to participate in the study and were completely aware of its goals, their rights as participants, and the confidentiality and anonymity of their replies (Pietilä et al., 2020).

It was important to take into consideration that the choice of respondents can be influenced by the researchers own biases, for example; If the researcher only chooses respondents who they believe will support their research hypothesis, rather than seeking out diverse perspectives, or choosing respondents who are similar to themselves in terms of age, race, gender, education, or other characteristics, rather than seeking out diversity (Gilchrist et al., 1999). As a result, it was critical to be open and honest about the sample strategy and evaluation standards employed in the research.

To avoid issues during the actual interviews, the research questions were sent in advance to the respondents. Before the respondents agreed to participate, it was made sure the respondents comprehended the purpose of the study.

It was additionally made sure that the respondents understood the rights they have as respondents. This involved letting them know that participating in the research was entirely up to them and that they were free to leave at any moment with no repercussions (Pietilä et al., 2020). Additionally, the respondents were informed that they were free to ask any questions they might have regarding the study and that they could get in touch if they had any worries. The respondents were also informed about any advantages or risks of taking part in the study, advantages, such as contributing to research and personal benefits, and risks, such as revealing sensitive or confidential information which could negatively impact employment security or work relationships.

The respondents were also made aware of the anonymity and confidentiality of their responses. All information gathered for the study was kept private and all publications or reports emerging from the study will not reveal the participants identities.

3.7 SUMMARY OF METHODOLOGY CHAPTER

The study chose to use individual in-depth semi-structured interviews to gather data from 5 fund managers in Europe and the Nordics, on the topic of how they account for CSR in their investment decision process. Purposive sampling was used to choose participants for the study by actively selecting respondents based on predetermined criteria. Participants were private equity funds of funds investors with prior experience investing in private equity funds, selected from Sentica Partners fundraising network due to their expertise and experience. Primarily video conferencing was used when conducting the interviews. The interviews were recorded and documented for a thorough analysis of the data. The data collected from the interviews were analyzed using thematic analysis, which is a qualitative method that helps identify and organize key themes and patterns in the data. The study considered participant informed consent when making ethical decisions, by informing participants about the study’s goals, their rights as respondents, and the confidentiality and anonymity of their replies.

4. DATA PRESENTATION & ANALYSIS

4.1 DATA ANALYSIS PROCESS

The data collected from the interviews were analyzed using thematic analysis, which is a method of identifying patterns and themes in data (Braun & Clarke, 2012). It is a prominent method in qualitative research because it enables researchers to identify and organize key themes and patterns in data (Clarke et al., 2015). The process of thematic analysis involved several stages, transcribing recorded interviews into a textual form, carefully analyzing the data from each respondent for patterns, themes, and differences, organizing them into larger categories, and drawing links and linkages between the topics.

The transcription of the recorded interviews into textual form was the first stage in the theme analysis process. The interviews were carefully transcribed manually, to avoid any misinterpretation of the data. This step was critical because it created a written record of the data that could be reviewed and analyzed further (Alhojailan, 2012). The transcription needed to be accurate, which enabled a more in-depth comprehension of the conversations nuances and the meaning behind the words (Clarke et al., 2015).

The transcripts were then reviewed to begin identifying the key patterns and themes. The research questions, objectives, and aim of the study acted as a guide for this approach. By critically reading each of the respondent’s answers to each interview question, trying to attain a complete and correct understanding of their responses, and then comparing them to each other, searching for similarities and differences in the responses certain patterns and themes began to emerge from the data. These patterns and themes were then organized into larger categories, each one given a name or a brief description. The categorization procedure tends to improve data organization and structure, making it simpler to spot patterns and themes (Joffe, 2012). Correlations and linkages between the themes began to emerge as well, allowing for a more complete understanding of the data.

When modifying and clarifying the categories as needed, a continual back and forth between the transcripts and the themes and patterns were required. Furthermore, the themes and patterns were regularly cross-checked against the data to ensure that they accurately reflected the respondents' experiences and perspectives. The categories that emerged from the themes and patterns from the data are presented and discussed in the results chapter of the thesis.

It is crucial to remember that thematic analysis is a subjective process where there is no common framework to follow. Different researchers may have conducted a thematic analysis in an alternative way and may have discovered different themes and patterns from the same data (Braun & Clarke, 2012). As a result, it was critical to be upfront and honest about the analytic technique and to provide detailed arguments for how the themes and patterns were discovered. It is also crucial to ensure that the themes and patterns observed are backed by data rather than individual interpretations (Alhojailan, 2012).

4.2 DATA PRESENTATION

The following table presents the respondents who participated in this research. The table presents their "code name" for anonymity, their position, and the type of fund they represent. It is important to note that even though the respondents serve as representatives of their respective funds, their perspectives, beliefs, and notions are individualistic and do not necessarily reflect the stance of their entire organizations.

Respondent:	Position:	Fund Type:
European Investor 1	Head of an Investment Unit	Investment Fund
European Investor 2	ESG Analyst	Private Equity
Nordic Investor 1	Investment Director	Private Equity
Nordic Investor 2	Portfolio Manager	Private Equity
Nordic Investor 3	Investment Director	Private Equity

Table 1. Presentation of the respondents.

4.3 INTERVIEW ANALYSIS

The following chapter will present the interview questions used to assemble the data from the respondents and the responses to further discuss and analyze the data for a complete understanding of the data's implications. Additionally, because the sample size of the respondents was relatively small, it was of immense importance to critically analyze each of the respondents' answers to maximize the value of this research.

1. *What are the most important factors you consider when evaluating investment opportunities in private equity funds, and how do you weigh Corporate Social Responsibility (CSR) against other factors in your investment decision-making?*

European Investor 1 emphasized the importance of a team's track record, investment strategy, and market conditions, while also highlighting that CSR factors are becoming increasingly important in investment decisions. They noted that the importance of CSR criteria could vary depending on the fund proposal and the development of the market.

European Investor 2 focused specifically on the environmental impact of the investment target, recognizing the strong connection between environmental factors and financial performance. It is important to note that both European investors 1&2 both emphasized the importance of sector and market maturity when they account for CSR factors, whereas the Nordic investors did not mention it.

Both Nordic Investor 1 and Nordic Investor 3 highlighted the importance of sustainability/ESG in investment decisions. Nordic Investor 1 viewed sustainability as a cornerstone of their operations and emphasized the need for responsibility in their own operations and positive social impact. They considered investment focus, strategy, team, and track record to be equally important. Nordic Investor 3 similarly viewed CSR as part of a wider ESG framework and took a holistic view of investment opportunities, considering factors such as a manager's behavior in the market, their approach to risk, and the establishment of a responsible business culture.

Nordic Investor 2 prioritized a top-quartile track record, a motivated team with low turnover, and aligned interests, including a manager's commitment to their own fund. They also considered ESG to be important, noting that almost all managers in their portfolio were signatories of the United Nations Principles for Responsible Investment.

2. *Can you discuss the role of CSR in your investment strategy and due diligence process? For example, do you consider CSR performance in your investment decision, in hopes to avoid risk or to achieve superior returns for your investment?*

European Investor 1 placed significant emphasis on the importance of CSR performance as a policy goal and a means of being a good corporate citizen. They did not view CSR performance as a mechanism for avoiding risk or achieving superior returns.

European Investor 2 mentioned that they factor CSR performance into their investment decisions, particularly in the present day. They perceived ESG risks as strongly associated with their reputation and believed that, as a private equity firm, it was their responsibility to facilitate transformative change within the companies they invested in.

Nordic Investor 1 regarded responsible business practices as a competitive advantage and a prerequisite for long-term success. They viewed sustainability as a key operating principle and an integral part of their investment and decision-making processes.

Nordic Investor 2 mentioned that they have a commercial due diligence process that incorporated ESG factors, recognizing ESG as both a risk mitigation strategy and an avenue for generating solid returns.

Nordic Investor 3 did not employ any specific parameters or metrics to benchmark CSR performance but regarded it as an important aspect of every investment opportunity. They held the belief that investing with a manager who prioritized creating a positive societal impact and maintaining a favorable reputation was essential and regarded CSR as a component of risk management.

3. *Do your personal beliefs and viewpoints affect how critically you consider CSR performance in your investment decisions?*

European Investor 1 acknowledged that personal preferences may play a role but emphasized that investment decisions are made collectively.

European Investor 2 admitted to having stricter ESG preferences than most but tries to remain unbiased in decision-making and stressed the importance of having passionate individuals in charge of ESG and CSR.

Nordic Investor 1 stated that they share the values of their employer, suggesting that personal beliefs align with the company's focus on CSR.

Nordic Investor 2 also highlighted the importance of CSR from a personal standpoint and as a key priority for their group.

Nordic Investor 3 emphasized that personal beliefs impact actions.

4. *Who is behind the decision to consider CSR performance in your investment decision?*

European Investor 1 mentioned that whose money they manage has a large say. Things like gender balance in PE teams, climate actions, and environmental sustainability are common criteria of those whose money they manage.

European investor 2 responded that it is the investment committee. However, they mentioned there are no ESG team representatives on the investment committee.

Nordic Investor 1 noted that the owner and the board of directors have the final say.

Similarly, Nordic Investor 2, mentioned that the board of directors finally decides their final investment strategy. But on a day-to-day basis, it is the portfolio managers who are responsible for integrating the ESG considerations.

Nordic Investor 3 responded that every investment opportunity goes through their investment committee, which decides whether to pursue an investment further or not. Additionally, ESG is one of the main decision points for them, where they analyze how well the fund manager has integrated ESG into their fund.

5. *How do you evaluate a private equity firms CSR performance? What tools and methodologies do you use?*

Each investor has their approach to ESG evaluation, which includes:

- ESG questionnaires: Several of the respondents use their own ESG questionnaires to record data and evaluate CSR performance. However, they are still in the initial stages of processing the data.
- DD-questionnaire: Nordic Investor 1 mentions using their own ESG DD-questionnaire to evaluate CSR performance, in addition to other tools they have developed.
- Qualitative judgment: Nordic Investor 2 mentions using a qualitative judgment approach to compare managers but noted that it is not easy to have a quantitative element at this point. They also consider PRI scores as a reference.
- Materiality sectorial cards: European Investor 2 mentions creating their materiality sectorial cards and using online ESG databases to create a sectorial mapping with the main materiality points and the main ESG risks of every sector.
- External consultants: During the monitoring phase, European Investor 2 mentions working with external consultants to monitor and evaluate the ESG performance of their investments.
- Annual questionnaires: Nordic Investor 3 mentions using annual questionnaires for each GP in their portfolio, benchmarking each manager, and reporting back to the GPs how they have performed compared to last year and compared to other GPs in their portfolio.

6. *Which has a larger impact on your investment decision regarding private equity firms, good CSR performance or poor CSR performance? For example, do you view the consequences of good CSR performance as equally important as the consequences of poor CSR performance?*

    European Investor 1 viewed both good and poor CSR performance as equally important but had a policy of not investing in targets with poor CSR performance.

    European Investor 2 indicated that while they prefer to invest in companies with good CSR performance, poor CSR performance may be seen as an opportunity for the target to develop and grow, which is the goal of PE funds.

    Nordic Investor 1 considered good sustainable performance to be a prerequisite for investment and does not work with poor performers.

    Nordic Investor 2 suggested that bad CSR performance may have a larger impact as they are more likely to decline opportunities with a below-average commitment to ESG.

    Nordic Investor 3 suggested that exceptionally good CSR performance may be more of a return driver, but also acknowledged that there may be an ESG bubble in the market, which could allow an opportunity for multiple arbitrage or multiple expansions, while poor CSR performance may make it more difficult to sell the company at a good valuation. They also mentioned that they will not review opportunities that have poor CSR performance.

7. *Have you ever invested in a private equity firm due to its strong CSR performance? And have you ever avoided investing in a private equity firm due to its poor CSR performance?*

    European Investor 1 indicated that they had done both.

    European Investor 2 prioritized returns and considered CSR performance as a potential bonus rather than a determining factor.

    Nordic Investor 1 stated that good sustainable performance was a prerequisite for their investment, and they did not work with poor performers.

    Nordic Investor 2 suggested that ESG performance was one of several factors considered in their overall judgment.

    Nordic Investor 3 acknowledged the importance of CSR performance but also noted that they did not make investments purely based on CSR criteria and instead tried to pressure managers to improve their performance in this area.

8. *Are you willing to sacrifice returns for better CSR performance?*

    European investor 1, stated that they are willing, because they have a comfortable return above their targets, and that these facts incentive them to focus further on ESG and CSR factors.

    European Investor 2 mentioned that it is a discussion that they are having now, which is fueled by investor preferences. And they are noticing that nowadays, their investors are willing to sacrifice part of the financial return, they still want a returns first strategy, but not as high as previous funds if they have better CSR performance.

    While Nordic investor 1 stated that the question is not relevant, because they see that good CSR performance positively correlates with good returns.

Nordic Investor 2 was of a similar opinion, they saw that managers who have a strong focus on CSR usually also do well in terms of financial returns.

Nordic Investor 3 clearly stated that they are not willing to sacrifice return for CSR performance.

9. *How much financial return are you willing to sacrifice for better CSR performance in private equity funds?*

None of the respondents willing to sacrifice return for CSR performance could disclose this question since it is highly confidential.

However, European Investor 1 stated that they have started to focus more on impact than financial return.

10. *How do you determine the point at which CSR performance outweighs financial returns in your investment decision-making process?*

This question was also incredibly difficult to answer for the respondents. However European investor 1, mentioned that it depends on the market maturity and type and that there is no universal answer.

Nordic Investor 2 mentioned if CSR performance is extremely poor, then it could outweigh financial return, but they deemed it hard to measure from a positive side.

11. *How do you measure the value of CSR in terms of financial returns in a private equity fund investment?*

    This question seemed equally challenging to answer. However, European Investor 1 mentioned that they do not have any way of measuring CSR performance in terms of financial return.

    European Investor 2 indicated they are working on a model to figure out the relationship between financial returns and CSR performance. Because they want to find out whether there is a correlation between financial and CSR performance, if there is, then how strong is it? And can they quantify the correlation?

    Nordic Investor 2 similarly answered that on the private markets, it is exceedingly difficult to measure at this point.

12. *Do you see any potential risks and challenges associated with investing in a private equity fund with a strong focus on CSR? For example, risk of greenwashing, limitations on financial performance, increased complexity and uncertainty, limited market opportunities, or difficulties in measuring the impact of CSR?*

    European Investor 1 acknowledged the risk of fundraising if the CSR performance limits the potential return on the investment. They also mentioned that the complexity and difficulty of measuring CSR can also pose risks as they may lead to over or undervaluation of a funds CSR performance, which can be misleading.

    European Investor 2 shared their concerns about the challenge of measuring CSR impact and the risk of greenwashing. They emphasize the limited market opportunities, particularly in the energy transition market, which can make it difficult to find suitable deals.

Nordic Investor 1 stated that these challenges can be overcome through professional handling and due diligence, indicating the importance of proper risk management practices.

Nordic Investor 2 highlighted the risk of limited market opportunities in a narrow CSR-focused strategy. They prefer strategies that offer some level of flexibility to avoid difficulties from the deal flow perspective.

Nordic Investor 3 took a different approach, arguing that while being aware of them all, financial performance should be the primary focus of investing, and CSR should be seen as a means to achieve stronger financial performance in the mid to long term.

13. *Do you think that in most cases, private equity firms first become successful, and later integrate CSR practices into their operations, meaning that CSR practices are rather a sequel of success and not the reason behind it?*

European Investor 1 believed that CSR and ESG factors are increasingly important to the investor community, and many PE firms are integrating them into their operations, regardless of their success.

European Investor 2 explained that before 2015, integrating CSR successfully was difficult, but after 2015-2016, firms must integrate CSR to stay successful. And that the new firms being established today must focus on CSR from the start.

Nordic Investor 1 disagreed with the statement and suggested that the order may seem to be as described but they do not see such a phenomenon in the industry.

Nordic Investor 2 agreed that CSR practices are necessary nowadays and should be in place from the beginning, but in the past, some firms might have become successful before formalizing them.

Nordic Investor 3 was slightly skeptical of the impact of CSR on private equity and believes that the industry is driven by returns and deal-making. However, thought that managers who have integrated CSR early into their operations have probably benefitted from the trend.

14. *Have you ever seen CSR being used as a differentiating factor by private equity firms in the fundraising process? For example, have you seen private equity firms using CSR as a marketing tool in their fundraising efforts?*

European Investor 1 stated that they have seen many PE funds heavily market their gender diversity, and they believed that it has positively affected their fundraising performance.

European Investor 2 took a more critical stance, stating that CSR is being used as a marketing tool by all PE funds for fundraising nowadays. They also stated that most of the time it is not because the managing partner suddenly woke up one day and decided to be good for the planet and society, instead, it is because it is exceedingly difficult to raise capital without integrating CSR.

Nordic Investor 2 believed that while some PE firms have impact strategies and promote their CSR commitments heavily, they do not do so much with average buyout firms. They also emphasized that trust is crucial in the PE industry and firms cannot afford to lose it.

Nordic Investor 3 agreed that CSR is a big topic that has been gaining importance over the last year, especially when it is included as part of ESG. They noted that impact funds are more visible in the growth and venture capital space, but they are also present in buyout funds. They also observed that many larger institutions are actively seeking opportunities to invest with such managers, and there are funds of funds being raised that are purely focused on impact funds. Additionally, Nordic investor 3 believed people are sincere and trustworthy in what they say but think that the volume of opportunities to invest in ESG assets will be the biggest challenge because they are very sought after. Moreover, Nordic investor 3 had seen very elaborate CSR strategies being advertised that have anyway had quite similar investments to every other manager.

15. *Can you provide an example of a private equity firm that you think has successfully integrated CSR into its investment strategy and operations?*

European Investor 1 mentioned a Nordic-based "money-making machine" that is extremely successful, which has already raised 6 funds and is always oversubscribed. And is currently launching a lower mid-market fund series targeting companies with ESG and CSR at the center of their operations.

European Investor 2 mentioned a French PE firm, Sven Capital Partners, which has defined its own definition of sustainability and has a fund fully dedicated to energy transition and the blue economy. They also cofounded a data provider platform NEC to assess the environmental contribution of investments.

Nordic Investor 1 did not name specific firms but noted that there are several good examples in the Finnish setup.

Nordic Investor 2 mentioned FSN Capital from Norway, which is doing an excellent job in the buyout sector.

Nordic Investor 3 highlights EQT and Trill Impact as good examples in the Nordics and notes that Europe is a frontrunner in integrating CSR and ESG, while the US market is lagging.

16. *Finally, do you think integrating CSR is profitable for a private equity fund, and do you think CSR will become more important in the future for private equity firms in terms of attracting investors and raising capital?*

European Investor 1 was not entirely convinced that it has been proven yet but believes it will become more important in the future. They mention that developmental financial institutions from around the world are emphasizing the importance of climate, digitalization, and gender diversity, which can impact fundraising. They also cite a recent increase in the number of SFDR (Sustainable Finance Disclosure Regulation) compliant proposals received, which shows that focusing on CSR factors is becoming more relevant.

European Investor 2 viewed CSR and ESG considerations as profitable in the long term, as companies that are not sustainable will eventually disappear. They saw it as nearly impossible to raise capital without taking CSR and ESG into consideration, even if the fund is not an impact fund.

Nordic Investor 1 saw CSR as a license to operate, rather than a bonus.

Nordic Investor 2 believed that CSR is already a license to operate and that the bar is getting higher all the time. They saw it as important for fundraising and expected it to become even more important in the future as investors get better data and it becomes easier to compare different managers.

Nordic Investor 3 believed that taking a more holistic perspective on all stakeholders is integral to investing and hopes that it will become even more important in the future. They suggested that managers who do not take CSR seriously may challenge their future.

5. RESULTS

This chapter presents the outcomes of the data analysis by employing a systematic categorization of the data into distinct sub-sections based on thematic and pattern-based criteria. This methodological approach was employed to gain a deeper comprehension of the ramifications arising from the analyzed data.

5.1 Factors influencing investment decisions

The respondents highlighted the importance of a range of factors when evaluating investment opportunities:

- Track record
- Investment strategy
- Investment Team
- Top-quartile track record
- ESG/CSR factors
- Commitment to their own fund

None of the respondents clearly stated that one of these factors is above the rest in terms of importance. However, from the above-mentioned factors, ESG/CSR factors seemed to have grown in importance during the past years, while the importance of other factors seemed to have been constant for the past years.

Regarding ESG/CSR factors, it is important to note that both European investors emphasized the importance of sector and market maturity when they account for CSR factors in an investment opportunity, indicating that their CSR criteria might differ dependent on the sector or market maturity. Whereas the Nordic investors did not mention it.

5.2 Importance of CSR performance in investment decisions

The respondents mentioned several motivating factors why CSR performance is important in their investment decisions:

- CSR performance as a policy goal
- Being a good corporate citizen
- Competitive advantage & A prerequisite for long-term success
- Risk mitigation strategy & An avenue for generating solid returns
- Reputation management
- Risk management

Not one specific factor stood out why the respondents incorporate CSR performance in their investment decisions. However, everyone mentioned that they have incorporated CSR performance into their investment decisions. Although to different degrees, one investor argued that CSR should be seen as a means to achieve stronger financial performance in the mid to long term, while another investor saw it as a means to becoming a good corporate citizen.

Overall, risk aversion, value creation, and ethical reasons all play a factor.
Additionally, most of the investors mentioned that they will not consider investing in targets with bad CSR performance. However, one respondent viewed an acceptable degree of poor CSR performance as an opportunity for the target to develop and grow.

5.3 Approaches for measuring CSR performance

A common consensus was found among the responses that ESG reporting, and evaluation are still in their initial stages and can be complex and difficult to evaluate, measure, and compare. Each investor has their own approach to ESG evaluation, which includes:

- ESG questionnaires
- DD-questionnaires
- Qualitative judgment
- Materiality sectorial cards
- External consultants
- Annual questionnaires
- PRI scores

Overall, there seemed to be no standard framework for reporting and evaluating CSR performance, and the data can be limited, making it challenging to measure and compare performance across firms & funds. Additionally, the lack of quantitative quantifiable data seems to be one of the root causes of this problem.

5.4 Influence on consideration of CSR performance

It seems that the personal beliefs and values of the investor may influence their approach to considering CSR performance in investment decisions, but ultimately decisions are made collectively and with an effort to remain unbiased.

Additionally, the decision to consider CSR performance in investment decisions can be influenced by a range of stakeholders, including those whose money is being managed, the owner and board of directors, the portfolio managers responsible for integrating ESG considerations, and investment committees.

5.5 Sacrificing returns for CSR performance

One investor was willing to sacrifice returns for better CSR performance, while two other investors saw that the variables correlate to a degree, and another investor mentioned that it is an ongoing discussion, because of investor preferences. While the last investor was clearly not willing since they are not an impact fund.

None of the respondents willing to sacrifice return for CSR performance could disclose the amount of financial return, since it is highly confidential. Also, one investor mentioned they do not have a way of measuring CSR performance in terms of financial return.

However, another investor indicated that they are currently working on a model to figure out the relationship between financial returns and CSR performance. Because they want to find out whether there is a correlation between financial and CSR performance.

5.6 Challenges and risks of CSR

The responses from the investors highlighted various potential risks and challenges associated with investing in a private equity fund with a strong focus on CSR. These included:

- The risk of fundraising if the CSR performance limits the potential return on investment
- The complexity and difficulties of measuring CSR impact
- Risk of greenwashing
- Limited market opportunities.
- Lack of flexibility

However, one investor noted that these challenges can be managed through professional handling and due diligence, indicating the importance of proper risk management practices.

5.7 Trends in PE firms' promotion of CSR commitments

There seems to be a growing trend of PE firms promoting their CSR commitments, including gender diversity and environmental sustainability, to attract investors and raise capital. However, there is some skepticism among the investors interviewed about the sincerity of these commitments and whether they are being used purely as a marketing tool. While some funds have strong impact strategies and prioritize CSR commitments, others may simply be following the trend to stay competitive. The investors also noted that trust is crucial in the industry and that firms cannot afford to lose it.

5.8 Examples of successful CSR-focused PE firms

Examples of successful CSR/ESG-focused PE firms:

- A Nordic-based "money-making machine" that is extremely successful, already raised 6 funds, and always oversubscribed. And is currently launching a lower mid-market fund series targeting companies with ESG and CSR at the center of their operations.
- FSN Capital from Norway.
- French PE firm, Sven Capital Partners, has defined its own definition of sustainability and has a fund fully dedicated to energy transition and the blue economy. They also cofounded a data provider platform NEC to assess the environmental contribution of investments.
- EQT
- Trill Impact

Finally, one respondent mentioned how Europe, especially the Nordics, is a frontrunner in integrating CSR and ESG, while the US market is lagging.

5.9 Motivations for CSR integration for a PE fund

Several key takeaways were addressing the point:

- Its profitability has not been proven yet.
- CSR is a license to operate, rather than a bonus.
- Important for fundraising.
- Profitable in the long-term, as companies that are not sustainable will eventually disappear.
- Nearly impossible to raise capital without taking CSR and ESG into consideration, even if the fund is not an impact fund.
- Taking a more holistic perspective on all stakeholders is integral to investing.
- Managers who do not take CSR seriously may challenge their future.

Additionally, the respondents shared their thoughts on how the phenomenon will develop in the near future. Everyone believed that CSR integration is a trend that is not slowing down. It will become even more prevalent as investors get better data and it becomes easier to compare different managers and funds. One respondent mentioned insightfully that developmental financial institutions (DFI) from around the world are emphasizing the importance of climate, digitalization, and gender diversity even over returns, which can have a ripple effect on fundraising in time. They additionally mentioned a recent drastic increase in the number of SFDR (Sustainable Finance Disclosure Regulation) compliant proposals received, which indicates that focusing on CSR factors is becoming even more relevant.

6. DISCUSSION & CONCLUSION

6.1 DISCUSSION

This chapter will discuss the results of this research, by answering each research question. Subsequently, it should indicate whether this research was able to achieve its aim, which was to examine the role of CSR in private equity fundraising, specifically whether it can serve as a means of attracting investors and facilitating the acquisition of capital for upcoming funds.

6.1.1 Research Question 1:

- What is the current state of knowledge in the academic literature concerning the link between private equity firms and CSR, specifically in relation to fundraising?

There is an ongoing debate in the academic literature regarding the relationship between CSR practices and financial performance. While there are studies indicating a positive relationship between CSR practices and financial performance (e.g., Friede et al., 2015; Bollen, 2007; Margolis & Walsh, 2003), there are also studies suggesting no conclusive proof of correlation or even negative relationships (e.g., Renneboog et al., 2008; Cornell & Damodaran, 2020). Additionally, Cornell & Damodaran (2020) argue that in most cases, companies first become successful, and later integrate CSR practices into their operations. This would indicate that CSR practices are rather a sequel to success and not the reason behind it.

One potential reason for the lack of conclusive evidence is the quality and reliability of ESG metrics used to measure CSR performance. Widyawati (2020) argues that there is a lack of openness and consistency among ESG data providers and rating agencies, which makes measuring the relationship between CSR performance and financial performance inconsistent.

Regarding the Private Equity industry, a variety of research demonstrates that private equity firms have increasingly integrated CSR concerns into their operations. Private equity firms adopt two primary approaches to CSR integration: risk management and value creation (Van Duuren et al. 2016; Crifo & Forget 2013; Indahl & Jacobsen 2019). The former involves identifying and addressing potential CSR-related risks to safeguard the private equity firms' investments and ensure long-term financial performance, while the latter aims to capitalize on CSR-related opportunities to drive long-term financial performance and generate additional value for portfolio companies and the fund itself. Nevertheless, research indicates that private equity firms tend to prioritize risk avoidance through their CSR integration (Zaccone & Pedrini, 2020; Przychodzen et al., 2016; Van Duuren et al. 2016)

The importance of CSR for investors is also on the rise, particularly in the private equity sector. Studies indicate that investors now consider CSR as part of their due diligence process when evaluating investment opportunities in private equity firms (e.g., Branco & Rodrigues, 2006; Orlitzky et al., 2003). Investors use a variety of tools and methodologies, such as sustainability reporting, ESG ratings, CSR performance metrics, and stakeholder engagement to evaluate a private equity firms CSR performance, identify potential risks and opportunities, and make informed investment decisions (Branco & Rodrigues, 2006; Orlitzky et al., 2003; Carroll, 1991). Based on the literature (Orlitzky et al., 2003; Carroll, 1991), there is compelling evidence to suggest that investors may prioritize CSR in their investment decisions for several reasons. However, the likelihood of committing to an investment strategy that focuses on investing in firms with sound CSR practices regardless of industry or sector may depend on the structure and centralization of the investment decision-making process within an institution (Deegan & Rankin, 1996). Furthermore, there are significant differences in how investors from different nationalities account for CSR performance-based investments, additionally, a range of factors such as political views, social identity, ethical views, gender, and age can influence investors CSR preferences (Scholtens & Sievänen, 2013; van Duuren et al., 2016; Hong & Kostovetsky, 2012; McLachlan & Gardner, 2004; Bauer & Smeets, 2015; Huang et al., 2014; De Silva & Pownall, 2014).

In conclusion, the current literature regarding the subject would indicate that private equity firms need to recognize that CSR is becoming an increasingly important consideration for investors in their due diligence process. Private equity firms that prioritize CSR integration are likely to appeal to investors who consider CSR in their investment decisions, a trend becoming increasingly prevalent. These funds may be seen as more responsible and sustainable, which can increase investor confidence and attract more capital.

On the other hand, the lack of conclusive evidence on the relationship between CSR practices and financial performance, as well as the inconsistency in ESG metrics used to measure CSR performance, may make it challenging for private equity firms to demonstrate the financial benefits of CSR integration to potential investors. This could potentially affect their ability to raise capital, particularly from investors who prioritize financial performance over CSR concerns. Finally, investors from different nationalities may account for ESG/CSR differently, which can be influenced by a range of factors such as political views, social identity, ethical views, gender, and age. Private equity firms should be aware of these differences and adapt their CSR messaging accordingly when targeting different investors.

6.1.2 Research Question 2:

- How does CSR impact the ability of a private equity firm to attract investors and raise capital for upcoming funds?

"Nearly impossible to raise capital without taking CSR and ESG into consideration, even if the fund is not an impact fund. "

All the respondents who participated in the research suggested that CSR and ESG considerations are becoming more important for investors and PE fundraising, aligning with the findings of Branco and Rodrigues (2006), Orlitzky et al. (2003), Crifo and Forget

(2013), and Indahl and Jacobsen (2019). The fact that DFI: s, are strongly focusing on CSR/ESG factors, and the rise of SFDR proposals received further argues the point of the respondents. It is additionally highlighted by the fact that only one respondent clearly stated that they are not willing to sacrifice financial return for CSR performance and that the majority of the respondents would not consider taking the risk of investing in targets with bad CSR performance, which would indicate that PE funds that prioritize CSR and ESG factors may be more attractive to potential investors and could potentially raise more capital.

Furthermore, in the Nordics, good CSR performance seems to be a license to operate, whereas European investors seem to be willing to modify their CSR criteria dependent on the market maturity and the sector. The underlying rationale for this phenomenon could be attributed to the variance in market size among investors. The Nordics have established themselves as pioneers in the integration and advancement of CSR and ESG practices, while certain less-developed European countries have yet to catch up. Consequently, investors with a pan-European investment strategy must adjust their CSR and ESG criteria based on market maturity. For instance, maintaining identical CSR standards for investments in both Nordic and Bulgarian markets would significantly limit the investment opportunities in Bulgaria. It appears that investors generally calibrate their CSR and ESG criteria based on the prevailing CSR and ESG performance in each market.

Moreover, one can conclude from the data that there is a growing trend of PE firms promoting their CSR commitments, including gender diversity and environmental sustainability, in order to attract investors and raise capital. This would indicate that PE funds have realized the importance of CSR performance regarding fundraising, otherwise, they would not be doing it, which echoes the findings of Crifo and Forget (2013), and Indahl and Jacobsen (2019).

However, the results also highlighted potential risks and challenges associated with CSR-focused investing. Including the risk of fundraising if the CSR performance limits the potential return on investment, the complexity and difficulties of measuring CSR impact, and the limited market opportunities, which could partially explain the findings of

Renneboog et al. (2008), and Cornell & Damodaran (2020) why some CSR/ESG focused funds might underperform traditional funds that do not account for CSR and ESG factors. This indicates there are critical challenges associated with CSR/ESG integration that funds must account for not underperforming their competitors.

Additionally, according to a respondent, there seems to be a growing interest in impact funds, where larger institutions are actively seeking opportunities to invest, but the volume of such opportunities remains a challenge, which leads to a final thought. One respondent speculated on the idea that there may be an ESG bubble in the market, which could allow an opportunity for multiple arbitrage or multiple expansions. If to be true, it would suggest that investors are considering the possibility that the market of ESG-related assets may be overvalued and could potentially experience a correction in the future. Private equity funds that focus on ESG investments could be particularly affected by this potential bubble. If an ESG bubble were to burst, private equity funds with significant ESG holdings may experience a decline in the value of their portfolios. However, if the investors prediction of an opportunity for multiple arbitrage or multiple expansions comes to fruition, private equity funds may also have the potential to benefit from this market correction. Multiple arbitrages refer to the practice of buying a company's shares at a lower valuation than its estimated worth, then selling them at a higher price when the market corrects to reflect the company's true value. Multiple expansions, on the other hand, refer to the increase in a company's valuation multiple that occurs when investors are willing to pay more for a company's shares. Therefore, if an ESG bubble does exist, private equity funds with strong ESG investments could potentially take advantage of the market correction and make significant returns for their investors through multiple arbitrage or multiple expansions.

6.1.3 Research Question 3:

- How do investors assess a private equity funds CSR performance, and what is its significance in relation to other variables in their investment decisions?

Each respondent had their approach to ESG evaluation, including ESG questionnaires, DD-questionnaire, Qualitative judgment, Materiality sectorial cards, External consultants, and Annual questionnaires and PRI scores, aligning with Branco & Rodrigues (2006), and Orlitzky et al. (2003), and Carroll (1991) findings that several different approaches are being used to assess CSR performance.

Overall, there is no standard framework for reporting and evaluating CSR performance, and data can be limited, making it challenging to measure and compare performance across firms. The use of different methods, even different definitions of terms regarding CSR and ESG, and the lack of quantifiable data seem to be the root problem behind the complexity and confusion of measuring the effect CSR performance has on financial performance, which echoes the findings of Widyawati (2020), who argued that the potential reason for this lack of conclusive evidence regarding the subject is the quality and reliability of ESG metrics used to measure CSR performance.

These findings emphasize the need for more reliable and quantitative ESG metrics. This may require organizations, regulators, and policymakers to develop a more standardized framework for reporting and evaluating CSR performance which would allow for reliable measuring and comparing of CSR performance between actors.

The respondents highlighted the importance of a range of variables when evaluating investment opportunities, including investment strategy, team, track record, ESG/CSR factors, policy goals, and the GPs commitment to their own fund. While the specific importance placed on each of these factors may have varied between investors and depending on the investment opportunity, ESG/CSR factors seemed to have grown in importance during the past years, while the importance of other factors seemed to have stayed constant for the past years, which aligns with Branco & Rodrigues (2006), and

Orlitzky et al. (2003), findings indicating the rise of importance of CSR factor for investors, particularly in the PE sector. This may imply that private equity firms that have robust ESG/CSR policies and practices may be more attractive to investors, which may lead to increased fundraising success. Additionally, this finding highlights the incredible importance of staying up to date with changing investor preferences and market trends.

It appears that considering CSR performance can be an important aspect of investment decisions, both to manage risks and as an opportunity for creating long-term value. Again, however, the extent to which investors prioritize CSR performance may vary based on their values, investment strategies, and risk management approaches. But because the majority of the respondents would not invest in funds with poor CSR performance, one could argue that risk aversion might be a slightly more dominant factor, which aligns with the findings of Zaccone & Pedrini (2020), and Przychodzen et al. (2016), and Van Duuren et al. (2016) which argues that private equity firms tend to prioritize risk avoidance through their CSR integration. This indicates the importance of not having below-average CSR performance since it seems that there is not a large amount of funding available for such funds.

It seems that personal beliefs and values may influence an investors approach to considering CSR performance in investment decisions, but ultimately decisions are made collectively and with an effort to remain unbiased, according to the respondents. This finding has similarities with Deegan & Rankins (1996) findings, which indicated the structure and centralization of the investment decision-making process within an institution, can affect the investment decision. This would indicate that the more individual the investment decision is, the larger the chance for CSR biases, but also anti-CSR biases are to affect the investment decision. Additionally, the decision to consider CSR performance in investment decisions can be influenced by a range of stakeholders according to the respondents, including those whose money is being managed, the owner and board of directors, the portfolio managers responsible for integrating ESG considerations, and investment committees.

Finally, as mentioned, only one of the respondents clearly stated that they are not willing to sacrifice returns for CSR performance. Whereas none of the respondents willing to sacrifice return for CSR performance could disclose the amount of financial return since it is highly confidential, and an approach to measure CSR performance in terms of financial returns did not seem to exist among the respondents, which leads led to the following finding.

One of the most intriguing findings of this study was that there was a difference in views among the different investors on whether CSR performance and financial performance correlate. Some of the following statements were said during the interviews:

> *"I believe that for all PE funds to survive they must sacrifice returns to an extent for better CSR performance."*
>
> *"We see that good CSR performance correlates strongly and positively with good returns."*
>
> *"We are seeing that the best kind of managers, who have the most focus in ESG is also doing very well in terms of financial performance."*
>
> *"We have a comfortable return above our targets, this inventiveness us to focus further on ESG and CSR factors."*
>
> *"If our sole objective would be to achieve superior returns, we would not look into CSR performance and only commercial performance."*

These statements further present the divide in views on whether CSR performance and financial performance correlate. However, no provided evidence-based quantifiable data to prove their opinion, which further echoes the findings of Widyawati (2020), who argued that the potential reason for this lack of conclusive evidence regarding the relationship between financial performance and CSR performance is the quality and reliability of ESG metrics.

Because of this, one might wonder whether political views, social identity, ethical views, gender, or age could be the reason behind the difference in views on whether CSR performance and financial performance correlate, since Scholtens & Sievänen (2013), and van Duuren et al. (2016), and Hong & Kostovetsky (2012), and McLachlan & Gardner (2004), and Bauer & Smeets (2015), and Huang et al. (2014), and De Silva & Pownall (2014) argued that such factors might influence inventors preferences regarding CSR and ESG factors. However, regardless of the difference in opinions on whether CSR performance and financial performance correlate, there was a common consensus that CSR performance is becoming an increasingly predominant factor to consider when investing in a PE fund.

This finding indicates the need for private equity funds to be aware of this perception gap and address it in their fundraising efforts by providing clear and compelling evidence-based data that demonstrates the link between CSR performance and financial performance. However, it might be challenging since, once again, there does not seem to exist a standard framework for reporting and evaluating CSR performance. To tackle this challenge, private equity firms might need to engage in dialogue with their investors to understand their perspectives and concerns regarding CSR performance and financial performance, being transparent about their own CSR performance, and communicate their investment strategies deliberately.

6.2 RECOMMENDATIONS FOR FUTURE RESEARCH

Several recommendations can be made based on the limitations of this study. Future studies could aim to increase the sample size to ensure a more accurate representation of the private equity market. This can be achieved by including multiple private equity firms and a diverse group of investors.

Furthermore, future studies could incorporate quantitative data to provide a more comprehensive understanding of the link between CSR performance and private equity fundraising performance. This could involve using financial data to conduct a more precise comparison and to form more definitive conclusions.

Moreover, future research could consider including other variables that impact private equity fundraising performance, such as management quality, market conditions, and regulatory environments, to gain a more complete understanding of the factors that influence private equity fundraising success.

Several recommendations can additionally be made based on the findings of this study. Future research could explore the challenges associated with measuring CSR performance in private equity funds. This could help to identify the best practices for measuring CSR impact and could inform future investment decisions, which would seem to be of significant importance, based on the findings of this study. It could additionally provide much-needed insight into how to achieve a standardized way of reporting CSR performance, which would make it easier for investors to compare the CSR performance of different private equity funds.

Similar research could also investigate the factors that influence the correlation between CSR performance and financial performance in private equity funds. This research could help to identify the factors that are driving differences in views among investors and could inform future investment decisions.

Furthermore, future research could explore the factors that drive differences in CSR criteria between Nordic and European and even Asian and American investors. This research could help to identify the cultural, social, and economic factors that are driving these differences, and could inform future investment decisions in these regions.

6.3 CONCLUSION

This research underscores the importance of robust ESG/CSR policies and practices in private equity funds as a key driver of fundraising success. The results show that investors are increasingly drawn to firms that prioritize CSR, particularly in the Nordics, where good CSR performance is considered a license to operate.

However, challenges associated with CSR/ESG integration cannot be ignored, such as the risk of fundraising if the CSR performance limits the potential return on investment, the complexity and difficulties of measuring CSR impact, and the challenge of limited market opportunities. Additionally, certain investors are considering the possibility that the market of ESG-related assets may be overvalued and could potentially experience a correction in the future.

The trend that PE funds are promoting their CSR commitments somewhat regardless of the sincerity of their own CSR commitments is essential to acknowledge, which may pose risks to investors.

Furthermore, the lack of a standard framework for reporting and evaluating CSR performance poses challenges in measuring and comparing performance across firms.

Finally, this research noticed a difference in views among investors on whether CSR performance and financial performance correlate, which could be partly due to the limitations regarding ESG metrics, but perhaps also due to political views, social identity, ethical views, gender, or age.

To conclude the research, in the fiercely competitive landscape of private equity fundraising, the significance of corporate social responsibility performance cannot be ignored, regardless of whether the variable correlates with financial performance or not. Without both crucial elements working in harmony, private equity funds might risk compromising their ability to attract investors and raise funds. As such, it is imperative for private equity funds to recognize the critical factors that go beyond returns, to remain competitive in the fierce competition for capital.

7. SUMMARY IN SWEDISH

UTÖVER AVKASTNING:

Företagssocialt ansvar och dess roll i Private Equity-kapitalinsamling

En kvalitativ studie av Sentica Partners kapitalinsamlingsnätverk

7.1 Introduktion

Denna avhandling behandlar privatkapitalbolag, så kallade private equity-bolag och deras kapitalinsamlingsprocess. På grund av ökad konkurrens om kapital söker private equity-företag efter nya strategier för att locka investerare, inklusive företagssocialt ansvar (CSR). Det finns dock en brist på empiriska bevis på lönsamheten av att implementera CSR- och ESG-initiativ i private equity (ESG står för "Environmental, Social, and Governance", vilket är en förkortning som används för att beskriva olika faktorer som bedöms påverka ett företags hållbarhetsprestanda), vilket resulterar i skepticism bland investerare. Avhandlingen syftar till att undersöka rollen som CSR spelar i private equity-kapitalinsamling, specifikt om det kan fungera som ett medel för att locka investerare och underlätta anskaffningen av kapital för kommande fonder. Tre forskningsfrågor används: (1) Vad är den nuvarande kunskapsnivån i akademisk litteratur om sambandet mellan private equity-företag och CSR? (2) Hur påverkar CSR förmågan hos ett private equity-företag att locka investerare och samla in kapital för kommande fonder? (3) Hur bedömer investerare en private equity-fonds CSR-prestation, och vad är dess betydelse i förhållande till andra variabler i deras investeringsbeslut?

7.2 Litteraturgenomgång

Det pågår en debatt i den akademiska litteraturen om förhållandet mellan CSR-prestation och finansiell prestation. Medan vissa studier visar på ett positivt förhållande mellan CSR- prestation och finansiell prestation (till exempel Friede et al., 2015; Bollen, 2007; Margolis & Walsh, 2003), finns det också studier som inte ger några definitiva bevis på korrelation eller till och med negativa förhållanden (t.ex. Renneboog et al., 2008; Cornell och Damodaran, 2020). Dessutom menar Cornell och Damodaran (2020) att företag i de flesta fall först blir framgångsrika och först sedan integrerar CSR-praktiker i sin verksamhet. Detta skulle indikera att CSR-praktiker snarare är en följd av framgång än en anledning till den.

En möjlig anledning till bristen på definitiva bevis är kvaliteten och tillförlitligheten hos ESG-metrikerna som används för att mäta CSR-prestationer. Widyawati (2020) hävdar att det finns en brist på öppenhet och konsekvens bland ESG-dataleverantörer och betygsättningstjänster, vilket gör att mätningen av förhållandet mellan CSR-prestation och finansiell prestation blir inkonsekvent.
När det gäller private equity visar en mängd forskning att private equity-företag alltmer har integrerat CSR-faktorer i sin verksamhet. Private equity-företag använder två primära tillvägagångssätt för CSR-integration: riskhantering och värdeskapande (Van Duuren et al. 2016; Crifo & Forget 2013; Indahl & Jacobsen 2019). Det första innebär att identifiera och hantera potentiella CSR-relaterade risker för att skydda private equity-företagets investeringar och säkerställa långsiktig finansiell prestation, medan det senare syftar till att dra nytta av CSR-relaterade möjligheter för att åstadkomma långsiktig finansiell prestation och generera ytterligare värde för portföljbolag och fonden själv. Forskning indikerar dock att private equity-företag tenderar att prioritera riskminimering genom sin CSR-integration (Zaccone & Pedrini, 2020; Przychodzen et al., 2016; Van Duuren et al. 2016)

Vikten av CSR för investerare ökar också enligt tidigare forskning, särskilt inom private equity-sektorn. Studier indikerar att investerare nu tar hänsyn till CSR som en del av sin due diligence-process när de utvärderar investeringsmöjligheter i private equity-företag (till exempel Branco & Rodrigues, 2006; Orlitzky et al., 2003). Investerare använder en rad verktyg och metoder, såsom hållbarhetsrapportering, ESG-rating, CSR-prestationsmått och intressentengagemang för att utvärdera ett private equity-företags CSR-prestationer, identifiera potentiella risker och möjligheter och fatta informerade investeringsbeslut (Branco & Rodrigues, 2006; Orlitzky et al., 2003; Carroll, 1991). Baserat på litteraturen (Orlitzky et al., 2003; Carroll, 1991) finns det övertygande bevis för att investerare kan prioritera CSR i sina investeringsbeslut av flera skäl. Emellertid kan sannolikheten att engagera sig i en investeringsstrategi som fokuserar på att investera i företag med sund CSR-praxis oavsett bransch eller sektor bero på strukturen och centraliseringen av investeringsbeslutsprocessen inom en institution (Deegan & Rankin, 1996). Dessutom finns det betydande skillnader i hur investerare från olika nationaliteter tar hänsyn till CSR-prestationsbaserade investeringar. Vidare kan en rad faktorer, såsom politiska åsikter, social identitet, etiska åsikter, kön och ålder, påverka investerares CSR-preferenser (Scholtens & Sievänen, 2013; van Duuren et al., 2016; Hong & Kostovetsky, 2012; McLachlan & Gardner, 2004; Bauer & Smeets, 2015; Huang et al., 2014; De Silva & Pownall, 2014).

7.3 Forskningsmetodik

För studien användes individuella, djupgående, semi-strukturerade intervjuer för att samla in data från 5 fondförvaltare i Europa och Norden, angående hur de tar hänsyn till CSR i sin investeringsbeslutsprocess. Avsiktligt urval användes för att välja deltagare i studien genom att aktivt välja respondenter baserat på förbestämda kriterier. Deltagarna var investerare i private equity-fonder med tidigare erfarenhet av investeringar i private equity-fonder, valda från Sentica Partners finansieringsnätverk på grund av sin expertis och erfarenhet. Främst användes videokonferens vid genomförandet av intervjuerna. Intervjuerna spelades in och dokumenterades för en grundlig analys av data. Data som samlades in från intervjuerna analyserades med tematisk analys, som är en kvalitativ metod som hjälper till att identifiera och organisera viktiga teman och mönster i data. Studien beaktade deltagarnas informerade samtycke vid etiska beslut genom att informera deltagarna om studiens mål, deras rättigheter som respondenter, och konfidentialiteten och anonymiteten i deras svar.

7.4 Resultat och slutsats

Denna avhandling betonar vikten av robusta ESG/CSR-policyer och praxis inom private equity-fonder som en nyckelfaktor för framgångsrik insamling av kapital. Resultaten visar att investerare alltmer dras till företag som prioriterar CSR, särskilt i Norden, där god CSR-prestation anses vara ett krav för att bedriva verksamhet. Utmaningarna med CSR/ESG-integration får dock inte ignoreras, såsom risken att kapitalinsamlingen påverkas om CSR-prestandan begränsar den potentiella avkastningen på investeringen, komplexiteten och svårigheterna med att mäta CSR-effekter, och utmaningen med begränsade marknadsmöjligheter. Det är också viktigt att ta hänsyn till trenden att PE-fonder marknadsför sina CSR-engagemang något oberoende av äktheten av deras egna CSR-engagemang, vilket kan utgöra risker för investerare. Dessutom utgör bristen på ett standardiserat ramverk för rapportering och utvärdering av CSR-prestation utmaningar vid mätning och jämförelse av prestation mellan företag. Slutligen noterade denna avhandling en skillnad i synsätt bland investerare om huruvida CSR-prestation och finansiell prestation korrelerar, vilket delvis kan bero på begränsningarna kring ESG-metriken, men kanske också på politiska åsikter, social identitet, etiska åsikter, kön eller ålder.

För att sammanfatta indikerar denna avhandling att i det hårt konkurrensutsatta landskapet för insamling av privat kapital kan inte betydelsen av företagens sociala ansvarstagande ignoreras, oavsett om variabeln korrelerar med finansiell prestation eller inte. Om inte båda dessa viktiga element fungerar i harmoni riskerar private equity-fonder att försämra sin förmåga att attrahera investerare och samla in kapital. Det är därför avgörande för private equity-fonder att ta hänsyn till de avgörande faktorer som går utöver avkastningen för att förbli konkurrenskraftiga i den hårda kampen om kapital.

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