Socially Responsible Investment Strategy of the Norwegian Wealth Fund

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ABSTRACT

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Topic	**Socially Responsible Investment Strategy of the Norwegian Wealth Fund** - A study of behavior of portfolio companies in response to an exclusionary SRI approach.
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Abstract

Imagine a student studying in his own country, is awarded a scholarship from a developed foreign country. To continue receiving a scholarship, the student is assessed by the sponsoring country's education standards and needs to conform. What can we expect to ensue? There is a striking resemblance of this example to this research topic.

Sovereign Wealth Funds (SWFs) have been at the center of discussions and controversies due to the capitalistic influence that they exert on portfolio companies and the immense financial space that they operate in. Often termed as activists, capitalists, shareholders, stakeholders, or sponsors, these financial intermediaries, with their heterogeneous motivations, patronize companies in developing countries. Several government-controlled SWFs have acquired stakes worldwide. (Lyons 2008) & (Fry, Mckibbin, and O'Brien 2011). SWFs have also been in the spotlight for the wrong reasons such as lack of accountability or transparency. (Stone and Truman 2016). From initially aiming at profit maximization at inception, SWF's have evolved to gradually incorporate significant non-financial objectives in their investment strategies. Over the past decade, SWFs are increasingly focusing on socially responsible investing also known as ethical or impact investing. A literature review reveals a limited discussion about SRI implementation by SWFs and even fewer SWFs adopting SRI strategies.

The Norwegian SWF hereafter referred to as GPFG, has been regarded as the torchbearer for its highly transparent, viable and successful fund management strategy. With open strategies it has produced results, enhanced market liquidity and acted as a stabilizing influence amongst other

SWFs (IMF European Dept Delia Velculescu 2008). Since 2005, the GPFG has voluntarily engaged in socially responsible investing strategies concerning the portfolio companies that they invest in. As a combined effort of its financial and ethical arms, the GPFG evaluates companies according to its ethical guidelines and decides the further course of action of divesting or reinvesting in companies blacklisted by them. Taking into consideration a subset of companies that have been excluded or placed under observation by the GPFG, I aim to investigate the consequences of the GPFG's strategies. The research involves examining individual company reactions following the GPFG decision. The patterns in the narratives and actions of the company, point towards the actual impact of the GPFG's decision on the company.

Without assuming any theory or phenomenon at the outset, I undertake an interpretative qualitative analysis of GPFG sources, data, along with company annual, sustainability, and governance reports, news articles. Empirical findings lean towards the two main theories – First, institutional decoupling and resource dependence. Besides the theoretical links, an intriguing phenomenon emerges – shareholder primacy prevails.

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I embarked on this learning journey in 2019 after a long stint in the corporate world. This thesis is a culmination of two years of my master's degree at the University of Jyväskylä. Strategic management has always interested me, and this was a domain that I have never delved into. It has been both exciting and daunting. It has taken a lot of perseverance and courage to keep at the theoretical and empirical aspects of the research process. It would not have been possible to complete this thesis without the guidance and support of following people and institutions.

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I would like to thank my family, friends and mentors who have been with me, across the miles.

To my children Rochelle and Kenneth, who keep me motivated and inspire me to do better.

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Diana Toscano

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1 INTRODUCTION

1.1 GPFG as a market leader

SWFs have attracted the interest of economists, politicians, and researchers due to their potential for economic and political influence on a global scale. Having evolved from being mere financial investors to active ownership in the past decade, SWFs are increasingly adopting responsible investment practices. Independent policy-oriented researchers including Edwin Truman developed a prototype in the form of an SWF Scoreboard which formed the basis of international best practices for accountability and transparency for SWFs. This scoreboard helped inspire GAPP for SWFs. In his book (Truman 2010), the author depicts the SWF scoreboard with the GPFG ranking at the top of the list. The GPFG has emerged as a formidable leader in terms of its structure, governance, transparency, and responsible investing (Dimson et al. 2015). The fund is assessed highest in transparency on the Lindaburg-Maduell Transparency Index (LMTI By SWFI 2008). Through its exhibition of exemplary performance over two decades, seven aspects of the Norway Model for asset management emerge - de-risking through diversification, the long-term horizon for investments, responsible investing, cost efficiency, active management of the fund, clarity on governance, and transparency (Chambers, Dimson, and Ilmanen 2011). However, the authors (ibid.) also state that there is not enough evidence about the benefits of the GPFG's SRI strategy and on the efficacy of active governance.

Universally, SRI best practices are insufficient and the GPFG's work in this area has been deemed as a benchmark, especially towards climate change. Researchers discuss the effectiveness of an exclusionary approach to engage with portfolio companies to include environmental, social issues towards holistic decision making (Halvorssen 2010). The Ethical Guidelines model of the GPFG for environmental and social governance, is suggested for all long-term investors, government-owned and private alike. To protect the long-term value of investments it could be recommended for all actors in the financial universe. (Halvorssen 2011). The author argues that companies which adhere to SRI, experience a positive impact on the organization's long-term performance while protecting the environment. This further emphasizes the GPFG's crucial role in SRI.

1.2 GPFG in controversies

Likewise, skeptics argue against the GPFG's functioning and implementation of SRI policies. Political factors influence SWF's decision-making more in "where to invest" than "how much to invest" (Knill, Lee, and Mauck 2012). The GPFG has been drawn into political controversies by effectuating Israel's boycott through its policies. It upheld investment sanctions against companies engaging with projects in erstwhile Burma, on basis of complicity in human rights violations. Simultaneously, the GPFG did not act on the recommendation to exclude South Korean company Daewoo for supplying defence equipment and technology to Burma (Backer 2009) . When GPFG trimmed its portfolio of companies violating human rights and engaging in child labor, it sold 400 MUSD of Walmart shares, triggering a political feud with the American ambassador (Bernstein, Lerner, and Schoar 2013). A similar reaction was triggered when GPFG divested from Icelandic banks. In early 2019, the Parliament was contemplating adding Oil & Gas sector to its exclusion list and the proposal appeared to be in conflict with its own wealth being derived from hydrocarbons. In 2020 IPE, a leading European publication, ran a news report about a possible tweak to the GPFG's ethical code leading to €1 billion disposals. It also referred to the Norges Bank officials' concern that rules for ethical exclusion should not be a channel to influence international relations. The Norges Bank report stated ethical considerations associated with the GPFG's investments in "*countries whose statutes and regulations violate internationally-recognized conventions and standards*" (Fixsen 2020). These events can be associated with the study of SWFs as large-scaled investors with two distinct aspects viz. that they are state-controlled and foreign investors (Calluzzo, Dong, and Godsell 2017). The state-controlled nature of SWF makes it prone to political interference. Being foreign investors brings a different economic, social, and cultural context to investing which may not match that of the country of the portfolio company. Referring to the preceding two sections, advocates consider the GPFG as one of the most responsible SWFs. So also, critics emphasize on the economic, financial, and political influence that the GPFG holds in the market despite its own wealth being derived from fossil fuels. The GPFG has been aiming to increasingly adopt SRI via its exclusionary strategy. Yet there seem to be unintended responses by the portfolio companies. Little is known about the ethical footprint of the GPFG in the countries in which it invests and also about the efficacy of its SRI strategy. Some studies have examined the impact of the negative screening on stock prices of portfolio companies (Endrikat 2016). (Yin 2017) studies four SWFs and their SRI strategies and explains how SRI implementation by SWFs can have a positive impact on the portfolio companies and contribute to the sustainability footprint of financial markets. None of the previous studies delve into grassroots dynamics between any SWF and its portfolio companies. Through a careful assessment of publicly available secondary data, this research focuses on the implications of the GPFG's exclusionary approach on the portfolio company's behavior.

Research Questions

How do portfolio companies respond to GPFG's exclusionary decisions? Is there a holistic compliance by portfolio companies to GPFG's guidelines?

2 BACKGROUND

The Government Pension Fund Global (GPFG) was established to safeguard the economy from revenue fluctuations through oil. It has been serving as a financial reserve and long-term investment conduit to cover the pension costs of an aging population. The fund has predominantly grown through global investments into equities, real estate, and fixed income instruments. Deposits from oil and gas revenue account for less than half the value of the fund (Norges Investment Bank Management 2021). The GPFG is fundamentally owned by the citizens of Norway and Norway's Ministry of Finance manages investments on their behalf. The Storting aka Norwegian Parliament is the head of GPFG's governance framework and regulates and delegates authority to a multi-tier organization. A regulatory council of members from the Ministry of Finance is responsible for the supervision and auditing of the Executive Board of the Norges Bank who in turn supervise the progress of the Norges Bank Investment Management NBIM. NBIM manages the core operations of the GPFG and employs a global trading desk, systems, and connectivity to cover equity investments globally with specific emphasis on regions deemed important by fund management.

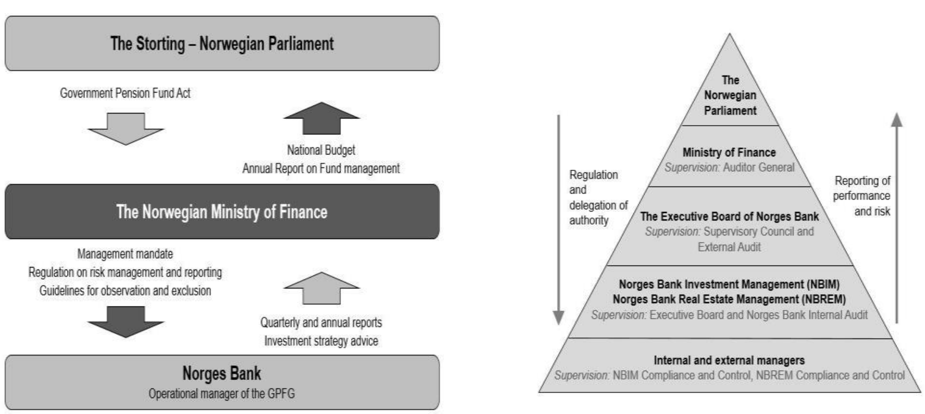


Figure 1 Organization Structure of Norges Bank

(GPFG Governance framework and Ministry of Finance 2018)

2.1 Equity Investments – Norges Bank Investment Management

Since 2003, the trading desk has been distinguished with two functions - the trading team and the portfolio management team. The trading team focuses on cash flow, rebalancing, and transition activities while the portfolio management team focuses on portfolio decision-making. Together they continued to operate as one integrated desk with common systems and objectives. By 2011, the trading team which began in Oslo expanded to be a global team with offices in New York, Australia, Japan, Shanghai, and Singapore. In 2007, a dedicated analytics team was established, to develop internal tools to benchmark the performance of its investment strategies. Post the financial crisis of 2008, the NBIM stepped up to establish a market structure team to provide research and recommendations towards long-term investments.

From 1998 to 2001, the NBIM actively traded in equity index futures. From 2002 to 2006, NBIM ramped up internal management and increased trading in physical stocks. Starting in 2007, the funds' investments grew to include 4400 small new companies. In 2008, the fund invested in 23 new emerging markets and by 2009, the strategic asset allocation for equity investments was increased by the MOF from 40% to 60%. NBIM proceeded opportunistically during the financial crisis of 2008 to increase its ownership, but revenues did not improve. Despite the decreased turnover, the fund received sizeable inflows from 2011 and 2012. 2017 saw a further increase in equity volumes reaching 273 billion USD but smaller as compared to 2008. In 2019, the fund value touched a trillion-dollar for the first time with a value of over 1 trillion USD as of date. (Norwegian Fund Value 2021) . As of May 2021, GPFG ranks highest on the SWFI scoreboard of ranking by total assets.

From inception to date, the annual rate of return has been 6.3 percent with a net return rate of 4.4 percent. At the end of 2020, the fund comprised 72.8 percent equities, 2.5 percent unlisted real estate, and 24.7 percent fixed income. Figure 2 depicts the growth of GPFG over the last two decades with ownership in 9123 companies across 73 countries.

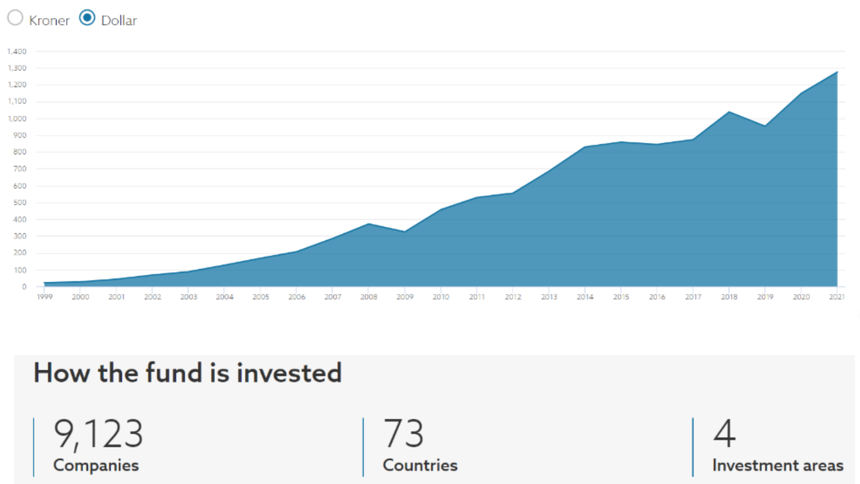


Figure 2 GPFG Growth Chart in billion USD (NBIM 2021)

The history of equity investments is particularly crucial in understanding the GPFG's accomplishment as the single largest owner in the world's stock market with an average stake of 1.5% in every listed company. Financial performance goals and their measurement criteria can be quantified and evaluated against projections from the regional and global securities market. NBIM has efficiently created a professional team of market researchers and stock traders to their advantage which has helped the exponential growth of the fund's value to date. As of 2021, NBIM is headed by 9 C-level executives (NBIM Leader Group 2021) and globally supported by a horde of internal personnel and external service providers(NBIM 2020).

2.2 Socially Responsible Investing & Council of Ethics

In the last decade, corporate governance has witnessed an emergent facet – ethical and social responsibility while investing. SRI is a strategy that is inclusive of the impact on environmental, ethical, or social aspects over and above financial returns from an investment. Investors primarily follow three approaches to SRI viz. positive screening, negative screening, and community investing. Negative screening comprises assessing a company's practices, products, or services before or while being invested in it. Positive screening involves investing only in companies that investor approves of. Community investing in businesses and projects that boost local communities economically. (Corporate Finance Institute 2021)

In 1997, Norges Bank advised the Ministry of Finance to diversify its investments in multiple markets with small stakes in each company's equity. The bank's foresight helped the fund in accommodating investment restrictions of political nature; however, it wasn't ready for negative screening due to the inability to establish unambiguous criteria and high cost to safeguard all considerations. Subsequent coalition governments asserted that the fund should consider environmental and human rights issues in its investments. Norges Bank identified three viable approaches viz. negative screening, positive screening, and active ownership through voting rights. 2001 saw the Norwegian government instituting an exclusion mechanism to bar companies violating Norway's obligations under International Law. Prior to the formation of the Council of Ethics, existed an advisory committee known as International Law. Consequently, in 2002, Singapore Technology Engineering was excluded from the GPFG, and in 2006, 7 producers of cluster ammunition and 8 companies manufacturing nuclear weapons were excluded. Based on Norway's alignment with international obligations, the fund started to align its investment universe. Norges Bank started working towards promoting long-term financial returns. Its corporate governance has been based on the UN Global Compact, OECD Guidelines for Multinational Enterprises, and OECD Principles of Corporate Governance (NBIM Corporate governance and ethics 2006). The move towards SRI was accepted well by Storting and the MoF. Norges Bank however raised its concern that the ethical considerations if done excessively, could affect the portfolio performance. Additionally, Norges bank mandated that, to safeguard profits, the divestment process be completed before announcing the exclusion decision and that it would lead the initiative in soliciting companies for ethical investment. Thus, the Council of Ethics was reasonably subordinated to the Norges Bank merely to be providing recommendations to the Ministry of Finance. As of 2020, the Council of Ethics had 5 members, and its secretariat had 7 employees. Figure 3 depicts the positioning of the Council of Ethics in the GPFG's governance framework, NBIM certainly has a larger role and authority.

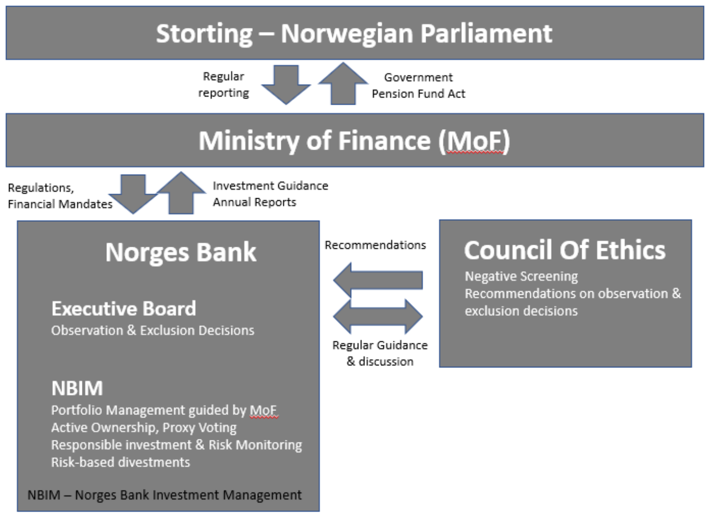


Figure 3 Positioning of the Council of Ethics

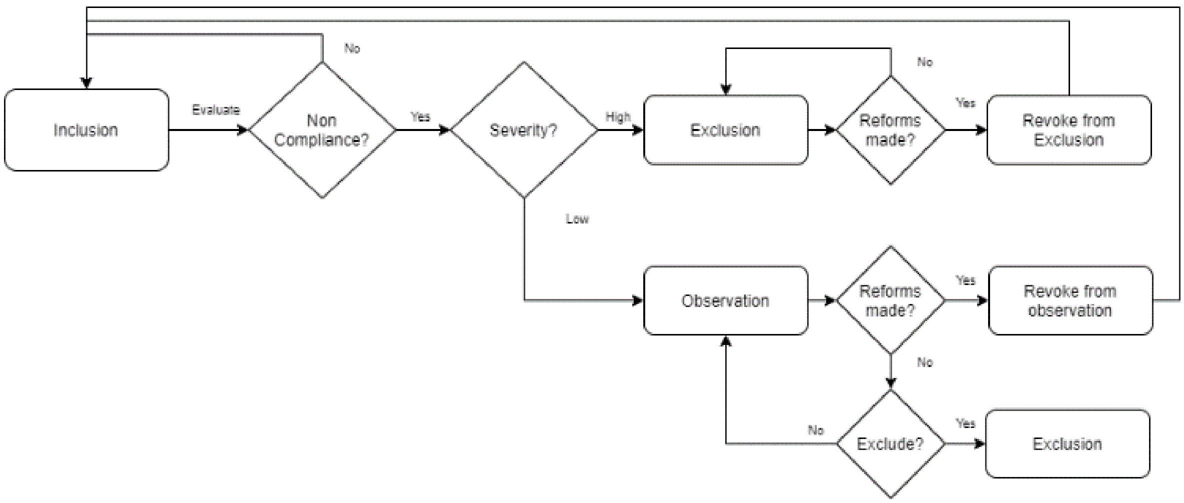
Since 2006, the GPFG operates within a framework of internationally agreed standards and has created its guidelines for companies to manage their environmental and social matters. It publishes its expectations of portfolio companies to themselves develop and maintain international standards for governance and sustainability. The fund exercises its ownership in shareholder meetings via voting rights. As an active stakeholder, it works on identifying, measuring, and managing risks and opportunities that could impact companies (NBIM Responsible Investment 2020). Following are some of the UN SDGs areas that the Oil Fund principally aligns with and sets expectations of the companies in its portfolio.

1. Children Rights (NBIM Children's rights 2020)
2. Climate Change (NBIM Climate change 2020)
3. Water Management (NBIM Water management 2020)
4. Human Rights (NBIM Human Rights 2020)

5. Tax and Transparency(NBIM Tax and transparency 2020)
6. Anti-corruption(NBIM Anti-corruption 2020)
7. Ocean sustainability(NBIM Ocean sustainability 2020)

2.3 Fund's Investment Lifecycle in Portfolio company

Equipped with traders operating a global trading desk, separate asset managers, active portfolio managers, and deploying external vendors for trading analytics, the GPFG developed deep expertise in equity research and execution payments as separate functions. All these key players determine a company's potential to be a part of the GPFG portfolio. On fulfilling all the initiation criteria, a company is included in the portfolio of companies that the GPFG invests in. This action is labeled as "Inclusion" equating to an investment. By virtue of its investment in a company, the GPFG becomes a shareholder and gains voting rights in shareholder meetings. Along with equity investments, the GPFG also governs the portfolio company's progress on various grounds such as ethics, sustainability, environmental focus, human rights, climate change, and water management. All going well, the GPFG continues its investment in the portfolio company and may invest additional funds. The GPFG may decide to exclude viz. divest from the portfolio company on its failure to comply with optimal returns, unethical behavior, illegal activities adversely affecting people, severe negative impact on environment or climate by way of destruction or pollution. This would lead to an "Exclusion". In certain cases, if the GPFG gauges the severity of the impact to be low, it places the portfolio company under "Observation". After company's reversal of its unethical or unsustainable actions, the Fund may reinstate the company into its portfolio with "Revoke from Observation" decision. In quite a few cases, the GPFG has audited the practices of excluded companies with a positive decision to "Revoke from Exclusion". The workflow in Figure 4 below shows the researcher's understanding of the exclusionary mechanism employed by the GPFG.



Inclusion – Fund invests in a company and makes it part of its portfolio
Exclusion - Fund withdraws investment from portfolio company
Observation – Fund stays invested in a portfolio company and continues to observe it for next action.
Revoke Observation – Fund finds satisfactory positive action from portfolio company and reinstates portfolio company to be included in its portfolio.
Revoke Exclusion - Fund finds satisfactory positive action from portfolio company and starts investing again in the portfolio company.

Figure 4 Overview of Exclusionary Lifecycle

3 THEORETICAL FRAMEWORK

Previous studies related to SWFs and SRI have considered them independent of each other focusing on Agency theory, Universal Owner and Stakeholder theory. Agency and Stakeholder theories support how the adoption of SRI affects governance in the portfolio companies. In this study, the response of portfolio companies to GPFG's SRI decisions, helps understand two main theories – first institutional decoupling and second resource dependency. This research also throws light on how resource dependency worsens institutional decoupling by portfolio companies.

3.1 Institutional Decoupling

Institutional decoupling is a phenomenon in organizational theory where groups or individuals create gaps between policies and actual practices for vested interests. (Meyer and Rowan 1977) explain decoupling occurs because organizations wish to gain acceptance from external parties and be able to manage internal operations as per their own will. (Westphal and Zajac 2001) suggest that organizational chiefs engage in decoupling to retain their internal authority in the face of external pressures. Consequentially, the active participants involved in decoupling, retain, and apply the behavior in other domains, often causing a domino effect. Decoupling is enhanced when organizational heads have socio-political power networks and have vested interests. Gradually it results in maintaining different façades for different factions in the business environment.

Former literature suggests that decoupling is expected to appeal to downstream stakeholders in a globalized setting when it is characterized by dissimilar assessment standards, ambiguous instructions, contradictory expectations, greater transaction costs, inadequate commitment to regulations, and importantly the absence of monitoring compliance (Greenwood and Hinings 1996). (Bromley and Powell 2012) refer to multiple scenarios, first where policies are established and communicated but not being implemented, and another where policies are implemented inadequately without concrete results. In the case of GPFG's portfolio companies, both scenarios apply. To explain the first scenario, it is known that most companies have published supply chain excellence policies, however in reality the benefits may not reach the lowest level in the supply chain. Companies that have published environmental protection policies may be unable to produce tangible reports to substantiate the policy – this relates to the second scenario.

While establishing its policies, the Norwegian government has stated its intention of promoting values that are important to the Norwegian people. As a country, Norway and its western counterparts have conceived, adopted, and continue to practice high standards of environmental and social norms. These norms may not be prevalent in countries where the GPFG invests, and the practices may not be per the expectations laid down by the GPFG. (Sandberg et al. 2008) explain the heterogeneity between GPFG and the portfolio company. The authors suggest that SRI heterogeneity occurs due to regional, cultural, and ideological differences, variations in beliefs and norms, and the unique market setting of each company. The social and institutional pressure faced by portfolio companies to conform to formal structures and policies, is highly intensified after an exclusionary decision. The demands due to GPFG's expectations may be unmanageable for portfolio companies due to relatively high standards. This gives rise to organizational decoupling in the portfolio companies wherein they end up creating shields to conceal internal activities from external supervision. Companies need to portray a good image; thus, it may represent itself quite differently than its real manner of operating. This is essentially how decoupling is propagated portfolio companies.

3.2 Resource Dependency

Following from the previous section arises an important question. Why do portfolio companies want to portray a good image? A good point to begin with would be to recognize that portfolio companies have a high dependency on capital investment from the GPFG. A potential resource dependency arises when GPFG invests capital and can subtly control the company's behavior through active ownership, screening, and exclusion mechanisms. The company is obliged to adhere to the expectations laid down for the portfolio companies. However, companies' operating environments are quite contrary to the investor countries. (Pfeffer and Salancik 2003) discusses the significance of knowing well the organization's environment to genuinely understand its response to external pressure. In an ideal situation, when portfolio companies have a similar environments and comparable standards as the GPFG, it would be easier to comply with the GPFG's expectations. In her publication (Karametaxas 2017), about SWFs as socially responsible investors, the author explains that the perception of an ethical obligation may vary from one jurisdiction to another. SWFs are largely invested in countries with poor environmental and human rights records. When a portfolio company is excluded or placed under observation, the GPFG withdraws its investments. GPFG's divestment from a portfolio companies may reduce its capital supply to pursue its primary business and may cause a subsequent reduction in share price. Companies may not have the capacity to engage in environmental and social compliance projects. An exclusionary SRI strategy leads to other green investors eschewing offender companies and leading to a fall in the stock price (Heinkel, Kraus, and Zechner 2001). Capital divestment by prominent green investors also leads to the blacklisting of the company by other investors thus causing a downward spiral. The signaling effect caused by exclusion is disastrous and causes market players to follow suit. (Vasudeva, Nachum, and Say 2018) state that the GPFG is an important intermediary in the way it provides cues and information about portfolio firms to other private investors. The authors (ibid.) suggest that GPFG's level of equity ownership in companies represents a strategic cue for other internationalizing companies. Evidence exists that signaling due to GPFG exclusions, aggravates the portfolio company's need not only for capital investment but also legitimacy in the overall marketplace. Exclusion by the GPFG has had repercussions on the portfolio company leading other investors to divest from them (Reuters 2020).

(Drees and Heugens 2013) highlight that not every inter-organizational agreement results in enhancing legitimacy and autonomy. Sanctions from a controlling stakeholder create a subtle loss of organizational autonomy and also a conflict of interest between governance and production goals. Simultaneously these sanctions send waves in the global market thus intensifying the isolation of portfolio companies. Portfolio companies aren't on level ground with the GPFG and may not have a comparative advantage. Cumulatively, what ensues is a scramble to comply more rapidly in one area and may induce non-compliance in many other areas. To reclaim the lost capital and defend their reputation, portfolio companies may engage in quick fixes. This may cause window dressing tactics to emerge, and the underlying issues to remain unaddressed. Companies may carve out information for disclosure and exclude part of their actions. They may also twist information to salvage their image. Lastly, they may create information to be displayed to the required audience. The dependency on external resources causes companies to dissociate their actions from their image. This creates a false sense of accountability and transparency. This suggests that the need for resources exacerbates the decoupling phenomenon aka policy vs practice gap.

3.3 Shareholder Primacy

Theoretically, this study focuses how resource dependency causes decoupling behavior in portfolio companies. The data brings forth another integral aspect of the GPFG's functioning as a derivative of this study. As a shareholder, the GPFG aims to maximize profits from its investments. Through its SRI strategy, GPFG has been aiming to change environmental and social governance in its portfolio companies. The question however remains whether it can give up some of its profits to implement SRI efficiently. In their paper (Smith and Rönnegard 2016), authors examine avenues for changing the dominance of shareholder interests – this involves change from shareholder inclinations to stakeholder responsibilities. In 2008, the GPFG assessed its own guidelines to incorporate positive screening. But it found that in doing so, its portfolio of companies would decrease, and the selection would be limited to large-cap companies thus increasing the unsystematic risk. Observations from policies, events and data bring the researcher's attention to the GPFG's focus on maintaining the return on investments thus suggesting shareholder primacy.

4 RESEARCH METHOD & DATA

4.1 Qualitative Inductive Analysis

Quantitative research focuses on scientific, or numerical analysis of data gathered via questionnaires, surveys, or statistics and computed to calculate a quantifiable result. Alternatively, qualitative research is a process of natural observation and inquiry which aims to analyze events and phenomena that describe reasoning and behavior. (Creswell 2014) states that quantitative research is based on numbers usually with close-end questions whereas qualitative research is based on interpretations of responses that are a result of open-ended questions.

Inductive content analysis is an approach that researchers use to develop a theory by studying existing data, documents, recordings in written, audio, or video format. As the name suggests the theme emerges from the data through iterative evaluation and comparison (Thomas 2006) According to the author (ibid.), the purpose of an inductive approach is to condense data into succinct summary, ascertain relationships between research goals and findings to eventually develop a framework of the underlying phenomenon observed in the raw data. In the context of the selected topic for research, inductive analysis of company annual reports, ESG reports, watchdog exposés, news articles help to construct a narrative based on a multitude of perspectives. This research is about the Norwegian wealth fund which includes several companies in its portfolio.

> *"The case study method "explores a real-life, contemporary bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information… and reports a case description and case themes"* (Creswell 2014).

With a deep interest in sustainability strategies and associated corporate actions, this study has required the researcher to analyze and understand the working of the GPFG and SRI practices. Data from the NBIM site is available as yearly reports and needed consolidation. The GPFG's strategy of sector-based screening, helped the researcher select the initial set of portfolio

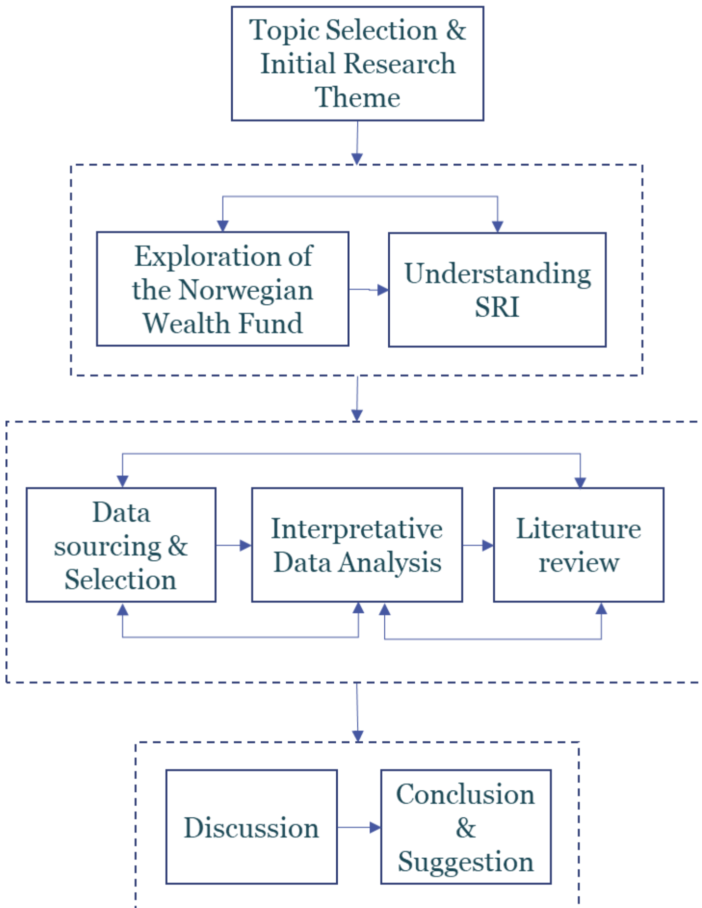


Figure 5 Research Process

companies. Additional incidences of norm-based violations built the complete data selection. With 16 portfolio companies as a part of the research design, a multiple-case inductive approach allows a cross-case synthesis. Figure 5 Research Process details the sequence of steps followed for this study.

A multiple case study approach provides a larger playground for observations and increases the reliability of the study (Stewart 2012). The background of questions asked for each case essentially remains consistent. Since the consequences of the GPFG's decisions are being studied, it is imperative to observe the impact on several portfolio companies. Empirical findings via multiple case study approach give rigor to the evidence measured. (Baxter and Jack 2008). Additionally, the researcher must analyze the data and documentation holistically by getting in there and getting your hands dirty with all information that each case is conveying. The emergence of theory grounded in data from multiple case studies should have extensibility in other domains. (Gioia et al 2013). The findings in this study may also extend to the several operations in the business universe.

4.2 Data

4.2.1 Selection

The Norwegian Oil Fund portfolio company data is public and can be accessed online and downloaded from (NBIO 2019). Data is available since 1998 for equity, real estate, and fixed income investment. For this study, *only equity investments* are relevant. Total equity holdings data is available country-wise as well as industry-wise. Year-wise data is available in a standardized format, thus data for all years was consolidated into one sheet. For purpose of simplicity and restricting scope, annual and sustainability reports for selected portfolio companies, from 2010 to 2020 have been included. Only reports published in English have been considered. The time duration for the reports has been changed to align with the action year. Additionally, NBIM decisions about portfolio companies were extracted from the website. (NBIM Observation&Exclusions 2020). Expectations laid out by NBIM were available from the same website.

The data for the study was carved out from a detailed set of criteria. Consolidation of industry-wise data since the inception of the fund in 1998 helped to identify the year of investment by the Fund into the portfolio company. Out of 9000+ companies, GPFG has taken action against 181 companies since 2005 (NBIM Observation&Exclusions 2020) and revoked action against 13 companies including them back into the GPFG universe. Industry selection was carved out from based on sector-based and norm-based exclusions and thus restricted to Consumer goods, Consumer Services, Industrials, Oil&Gas, and Technology. Subject to availability of relevant reports and data in English, the majority of the data portfolio is a subset of 11 companies for which the GPFG revoked its actions since it represents all sequential actions taken by GPFG. One company currently under observation, has been added since GPFG invests in its parent companies. This case helped analyze and unearth several observations. 4 companies where the GPFG has the highest investment with larger returns have been incorporated to check for parity in GPFG decisions. Thus, the final selection of data is 16 current and erstwhile companies spread over diverse industries such as Consumer goods, Industrials, Oil&Gas and Technology. Refer Table 1. Each case has been uniquely dealt with by the GPFG, thus it was interesting to find parallels between them.

Table 1 Data Selection Criteria

Data Selection Criteria	
Total exclusions and observations since 2005	181
Portfolio companies against whom GPFG gave decisions and revoked its decision	11
Portfolio company against whom GPFG has placed under observation and continues to invest	1
Top portfolio companies with large GPFG investments with no decisions	4
****NBIM Investment data is public thus no GDPR policy applies, there are no references to individuals' names in this study.**	

There are portfolio companies where the fund has invested into the entire group company or just a subsidiary and companies which have undergone mergers and acquisitions. Such use cases required careful study so as not to distract the findings.

4.2.2 Case Companies

Table 2 below lists the 16 companies which have been selected for this study. Each case has the name of the company, the initial year of GPFG's investment into the company, Industry, GPFG's year of action, and wherever applicable year of revoking the action, basis of action, and finally the basis for revoking the action.

Table 2 Data Portfolio of GPFG Portfolio companies and decisions

No.	Company (Initial investment year)	Industry	GPFG Action/Revoke Year	Action Basis	Revoke Basis
1.	Nutrien Ltd. (1998)	Basic Materials	Exclusion (2011/2019)	Western Sahara operations of the company violated fundamental ethical norms	Company's statement of cessation of activities
2.	Walmart (2001)	Consumer Goods	Exclusion (2006/2019)	Serious or systematic violations of human rights	
3.	Grupo Carso (2001)	Consumer Goods	Exclusion (2011/2019)	Tobacco production	Company's statement about the cessation of activities
4.	Texwinca (2003)	Consumer Goods	Exclusion (2019/2020)	Systematic breach of workers' rights in subsidiary factories	Liquidation of subsidiary
5.	Astra International (2004)	Consumer Goods	Observation (2015)	Severe Environmental Damage	
6.	Nestle (1998)	Consumer Goods	None		
7.	Amazon Inc (2000)	Consumer Services	None		
8.	Singapore Technology Engineering (1999)	Industrials	Exclusion (2002/2016)	Production of antipersonnel landmines	Company's statement about the cessation of activities
9.	Raytheon (1998)	Industrials	Exclusion (2005/2017)	Production of cluster munitions	Company's statement about the cessation of activities
10.	General Dynamics (1998)	Industrials	Exclusion (2005/2019)	Production of cluster munitions	Company's statement about the cessation of activities
11.	AECOM (2007)	Industrials	Exclusion (2018/2020)	Production of nuclear weapons, activities discontinued	Company's statement about the cessation of activities
12.	Petroleo Brasileiro Sa - Petrobras (2001)	Oil & Gas	Observation (2016/2019)	Risk of severe corruption	Reduced risk of corruption
13.	Drax Plc (2005)	Oil & Gas	Exclusion (2016/2020)	Coal power capacity above 30%	Transitioned to biomass
14.	Rio Tinto (1998)	Oil & Gas	Exclusion (2008/2019)	Severe Environmental Damages	Agreed to dispose its share in the mine
15.	Apple Inc (1998)	Technology	None		
16.	Microsoft (1998)	Technology	None		

As listed above, GPFG has excluded and placed companies under observation due to a single criterion. Media reports, watchdog investigators, and NGOs have reported other violations by companies that need attention in this study. Table 3 below lists the additional violations and themes under which these can be classified.

Table 3 Additional violations by portfolio companies

No.	Company (Initial investment year)	Additional Violations	Portfolio Company Conduct	GPFG Incongruity
1.	Singapore Technology Engineering (1999)	• Evasive reporting about landmine stockpiles • Not acceded to Landmine Ban Treaty • Lack of transparency	• Pretentious policies • Evasive reporting • Lack of Transparency	• No assessment of landmine stockpiles • Lack of adequate scrutiny
2.	Raytheon (1998)	• One of top 4 US Arms suppliers to Saudi • Complicit in Yemen war catastrophe • 3 billion USD in bomb sales in Yemen war • Took advantage of federal loopholes for deals • Lobbying against the governmental curb on weapon sales	• Pretentious policies • Corrupt Behavior	• Siloed approach towards assessment not considering the loss of life in war • Lack of adequate scrutiny • Lack of holistic Accountability
3.	General Dynamics (1998)	• Complicit in 2018 War crimes against children • One of top 4 US Arms suppliers to Saudi • Complicit in Yemen war catastrophe • Supplier of ammunitions in Palestine war • Profiting from wars and global conflicts through its billion-dollar international arms sales	• Pretentious policies • Corrupt Behavior	• Siloed approach towards assessment not considering the loss of life in war • Lack of adequate scrutiny • Lack of holistic Accountability
4.	Walmart (2001)	• Gender-based discriminations • Human rights abuse in the supply chain in non-US regions • Policy practice gap – Code of Ethics published in Annual reports	• Pretentious policies • Corrupt Behavior • Armlength Morality • Complicity via Supply chain	• Lack of adequate scrutiny • Siloed approach • Lack of holistic Accountability
5.	Grupo Carso (2001)	• Drilling and oil platform services for Pemex, a known environmental offender • Construction of the AMLO Mayan Rail causing irreparable environmental damage and endangering forests and species • Construction of AMLO's industrial park projects in Isthmus of Tehuantepec without an environmental impact study	• Pretentious policies • The spinoff of tobacco arm • Complicity via clients	• Subjective assessment of BHEL based on a client project causing environmental damage vis-à-vis Grupo Carso involved in similar projects • Lack of adequate scrutiny • Siloed approach to assessment • Lack of holistic Accountability
6.	AECOM (2007)	• AECOM's management services arm spun off as Amentum • Systemic Corruption by submitting false claims • Fraudulent billing to US Energy Department • Complicit in false file claims, fraud charges, wage, and hour violations	• Pretentious policies • Spinoff • Corrupt behavior	• Siloed approach to assessment • Lack of adequate scrutiny
7.	Texwinca (2003)	• Megawell subsidiaries operate independently • No information about the new garment workshops started by Texwinca	• Pretentious policies • Cessation • Evasive Reporting • Lack of transparency	• Lack of adequate scrutiny • Lack of reparatory mechanism
8.	Astra International (2004)	• Subsidiary infringed the constitutional rights of Indigenous Community • Illegal occupation and plantation without business or land cultivation rights • Stopped reporting plantation hectares • Non-standardized palm oil certifications • Violence against indigenous people • No reparations for environmental violations and human rights abuse	• Pretentious policies • Ceremonial CSR • Evasive reporting • Greenwashing • Nonstandard certifications	• GPFG invested in Astra in 2009, despite environmental damage which remained unchecked • Investments in Astra continues to increase despite the action • GPFG continues to invest in parent companies that are majority holders. • Lack of adequate scrutiny • Siloed approach to assessment • Lack of reparatory mechanism
9.	Petroleo Brasileiro Sa (2001)	• Systemic Corruption and political involvement • Recurrences of corrupt practices despite policies • The Chief Compliance officer reported roadblocks in the internal investigation • Stopped participating in national good governance program • Oil spills between 2014 and 2020 have caused environmental damage • Severe political interference in management activities leading to the removal of CEO	• Pretentious policies • Corrupt Behavior including political interference • Evasive reporting	Environmental violations not considered by GPFG Continued corruption not assessed adequately • Lack of adequate scrutiny • Siloed approach to assessment
10.	Apple Inc (1998)	• Child labor abuse in Supply Chain • Despite policies, human rights violations increased in 2017 • Self-violation of Code of Conduct -Inability to sever ties with unethical suppliers • environmental safety, labor standards, human rights, and business integrity are routinely ignored in the global value chain	• Pretentious policies • Armlength Morality • Corrupt behavior	• No action by GPFG - One of the largest investments by GPFG • Lack of holistic Accountability • Lack of adequate scrutiny

		• Throttled iPhone performance patches, leading consumers to buy newer phones, to boost sales • As recent as 2019 state that Apple violated Chinese labor laws by hiring 27% temporary workers against the permissible limit of 10%		
11.	Microsoft (1998)	• Despite Supplier Code of Conduct – Human right abuses in Cobalt supply chain • 2019 – Child labor in Congo • 2010 report - Child labor at lower wage rates and long work hours • 2019 – Complicit in Internet Censorship in China	• Pretentious policies • Armlength Morality • Corrupt behavior	• No action by GPFG - One of the largest investments by GPFG • Lack of holistic Accountability • Lack of adequate scrutiny
12.	Nestle (1998)	• Despite Code of conduct - Complicit in several human rights, child rights, and environmental violations • Bonded labor in Thailand while involved in a child labor lawsuit in Ivory Coast • Nestlé follows the OECD Guidelines, but complicit in human right abuses and environmental destruction their supply chain	• Pretentious policies • Armlength Morality • Corrupt behavior	• No action by GPFG - One of the largest investments by GPFG • Lack of holistic Accountability • Lack of adequate scrutiny • Lack of reparatory mechanism
13.	Amazon Inc (2000)	• Publishes an elaborate Code of Conduct and Ethics • 2018 report - poor working conditions for delivery personnel, miscalculation of wages, overwork and no pay, discrimination, bullying, and tight delivery deadlines compelled personnel to speed drive, no time for meals and breaks • Price fixing, anti-competitive activities • Environmental violations • Wage and Hour violations • Failure to protect consumer	• Pretentious policies • Armlength Morality • Corrupt behavior	• No action by GPFG - One of the largest investments by GPFG • Lack of holistic Accountability • Lack of adequate scrutiny
14.	Drax Plc (2005)	• Acquired companies contributing to biodiversity loss, carbon emissions, Indigenous people's rights violations • Endangered indigenous communities and Boreal Forests • Exceeded volatile organic compound limits for years impacting health adversely to the rural area of Southwest Mississippi • Air quality breaches • Operates world's largest biomass power station burns imported wood more than it can produce contributing to forest destruction and environmental justice.	• Pretentious policies • Armlength Morality	• Lack of adequate scrutiny • Siloed Approach • Lack of holistic Accountability • Lack of reparatory mechanism
15.	Rio Tinto (1998)	• Violated human rights in Bougainville for dumping toxic waste the Panguna mine • Involved in human rights abuse, environmental violations, Air pollution, and toxic impact on water • 2016 Rio Tinto divested from the mine, without cleaning up the billion tons of waste	• Pretentious policies • Armlength Morality	• Siloed approach to assessment • Lack of adequate scrutiny • Lack of holistic Accountability • Lack of reparatory mechanism
16.	Nutrien Ltd. (1998)	• Several Phosphorus production units shut down and Nutrien operates through OCP, Morocco's largest phosphate provider • Nutrien maintains the Western Sahara link via China-based company Sinofert where it has a 22% holding • 2018, Farmers Claim Nutrien Knowingly Sold Contaminated Herbicide	• Pretentious policies • Armlength Morality • Corrupt behavior	• Siloed approach to assessment • Lack of adequate scrutiny • Lack of holistic Accountability
17.	Bharat Heavy Electricals Limited (2005)	• Excluded based on an assessment of the risk of severe environmental damage due to a project contract with BIFPCL.	• Pretentious policies • Complicity via clients	• Subjective assessment of BHEL based on a client project causing environmental damage vis-à-vis Grupo Carso involved in similar projects

4.2.3 Data Analysis

Analysis followed sourcing and selecting the data. Using a regular inductive analysis approach, NBIM company data was analyzed for investment dates, USD figures, parent company investments. Relevant sections of company reports were scrutinized. Articles, reports, exposés by the news, watchdog, NGO, investigator websites were searched for ESG violations. Triangulation of data from all sources assured the validity of the research. With iterative analysis of the data sources, a within-case analysis was performed; this helped build depth of knowledge for each company. The constructs and phenomena developed gradually. With progressive analysis of multiple cases, unrelated notes were made sequentially in a specific format for the next iteration. Following completion of individual case analysis, the standard method of grouping the data was applied (Eisenhardt 1989); in this case by industries – mainly Oil&Gas, Technology, Consumer Goods, Industrials.

Across iterations, the data grouping evolved to incorporate similarities between cases and relationships between the observations. Out of iterative within-case analysis, surfaced the main phenomenon – How do portfolio companies respond to GPFG's compliance requirement? Additionally, as an outcome of the interpretative cross-case analysis, the nuances of GPFG's SRI strategy implementation, are observed - prioritization between financial and SRI priorities.

4.2.4 Coding Process

The coding process for this study utilizes a thematic analysis which necessitates interpretation of textual data through a methodical process of discovering codes and classifying them into themes. "Thematic analysis is a form of pattern recognition within the data, with emerging themes becoming the categories for analysis." (Fereday and Muir-Cochrane 2006) To begin with, qualitative content analysis entails identifying components for analysis. For this study, sections about code of ethics, ESG policies, year-on-year sustainability reporting facts, CSR activities, company statements were meticulously selected. News articles, NGO and independent watchdog reports, and articles were probed for similarities and contradictions to company policies and yearly results. The financial reporting of portfolio companies was excluded. Wheresoever required keyword searches were made to obtain specific information. A total of first-order 125 relevant excerpts surfaced through interpretative analysis. Through iterative cross-case study analysis, excerpts from multiple data sources were logged, coded, and categorized into themes. The final themes interpreted aligned to the relevant theories presented in this study. A systematic inductive coding process confirmed 16 second-order codes for which definitions were summarized - Refer Table 4. These second-order codes described both the conduct of the portfolio company as well as GPFG's conduct in assessing companies. These were categorized under 3 themes as depicted in

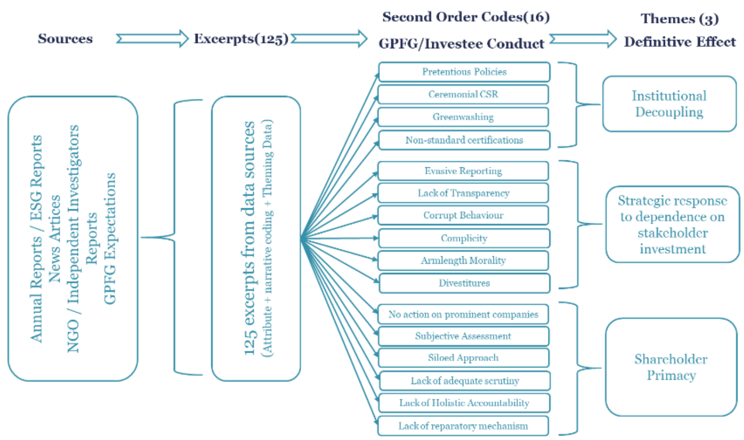


Figure 6.

Figure 6 Qualitative Coding of portfolio companies' responses

The themes represent the definitive effect of the exclusionary strategy of the GPFG. The empirical findings provided an impetus to link themes to existing theories. Between the final themes, emerges an interplay that deepens the researcher's understanding of the cause and effect of one entity on another: in this case GPFG on portfolio companies as shown in Figure 7.

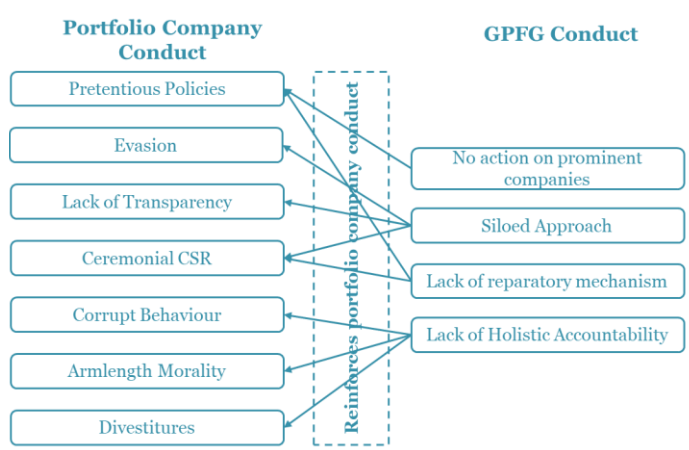


Figure 7 Reinforcement of portfolio company's conduct by the GPFG

Listed below are the definitions of the second-order codes along with the themes.

Table 4 Second-Order Code Definitions

Second-Order Codes	**Themes**	**Definition**
Pretentious Policies	**Institutional Decoupling**	Companies publish elaborate policies however there is a disparity between fundamental assurances in the policy rhetoric and real-life practices
Ceremonial CSR		CSR is ceremonial if companies decouple policies from implementation and/or impacts or if CSR is done to gain social legitimacy as a part of a corporate financial goal. Excessive CSR is a company's ingenious way to conceal unethical or corrupt behavior and to distract attention from wrongdoings.
Greenwashing		Greenwashing is falsifying information about products or services to customers in a way that makes them appear environmentally reliable.
Nonstandard certifications		Certifications are local and ceremonial and do not comply with global practices. These certifications allow companies to operate in the regional markets and list them as a part of their CSR instruments.
Evasion	**A strategic response to resource dependency**	Avoiding or shirking what is agreed to as per policy
Lack of transparency		Avoidance or under-representation of relevant information involving dishonest and deceitful behavior.
Corrupt Behavior		Corrupt Behavior may include bribery, embezzlement, lobbying, extortion, nepotism, mal-politics, patronage
Complicity		Collaboration with other parties in illegal or wrongdoing
Armlength Morality		Arm's length morality concerns in a principal-agent scenario where policy benefits are relevant at the upper part of a supply chain and the impact on allied third parties are neither clarified nor measured. e.g., Fair compensation policies for a global company are restricted to the US and violations exist in non-US companies or subsidiaries.
Divestitures		To maintain a clean image, companies choose to separate operations to be separate businesses with independent holdings, people, assets, and existing services and products that originally belonged to the parent company. Corporate spinoffs, cessations are a regular form of window dressing in the business universe.
No action on prominent companies	**Shareholder Primacy**	Portfolio companies where the GPFG has major investments haven't been assessed or actioned against for violations.
Subjective Assessment		Multiple companies are assessed differently for similar contracts/violations.
Siloed approach		Isolated method of evaluation of companies. ESG encompasses all three aspects, however for assessment if only one or another perspective is considered, then the approach turns out to be inadequate.
Lack of Adequate scrutiny		A situation where there isn't enough investigation done about the portfolio company.
Lack of holistic liabilities for companies		Holding/parent companies whose subsidiaries and partners have violated ESG norms have no liability due to the damages. Companies are conveniently structured to evade liabilities in case of casualties.
Lack of reparatory mechanism		Divestment from companies owing to ESG violations leaves the victims uncompensated and while the corporate universe is dealing with profits, the affected parties are left to fend for themselves. No reparation or corrective measures are observed after the damage has been done.

5 RESULTS & FINDINGS

This section discusses the empirical results of this research with regards to the grassroots level of the GPFG's implementation of its SRI strategy. An iterative interpretative study of 16 portfolio companies has enabled the researcher to discover trends through the data. There were no assumptions or prior starting point to the research and the empirical elements have evolved through making sense of the secondary data. Comparative analysis remained at the core of this research. GPFG decisions were compared to its own ethical guidelines, company policies, in turn with new articles and investigative reports to understand the events in an individual case. After recording of individual observations, they were grouped in a way when themes emerged from the comparison of cases.

5.1 Decoupled behavior by portfolio companies

As discussed by (Bromley and Powell 2012), two scenarios are valid for all portfolio companies to refer selected for this study. The decoupling phenomenon is observed across the majority of the portfolio companies selected for this research. Every company has published guidelines for Environmental Responsibility, Human Rights, Supplier Code of ethics, etc. However, all is not well when the rubber meets the road. Refer Table 3 for violations. Raytheon and General Dynamics exhibit striking contradictions wherein human rights policies are published and yet companies are complicit in war crimes through their business dealings with clients. Grupo Carso, Astra, Nestle, Drax, Amazon have been engaged in environmental violations in contrast to their policies. Walmart, Astra, Apple, Microsoft, Amazon, Texwinca have been complicit in Human Rights violations in contrast to their published policies. Listed below are companies with their policy inclusions, reported CSR activities, and deviations. Undeniably policies remain on paper without culminating into reality and lead to the widening of the gap between policy and practice.

Company (Initial investment year)	**Policies inclusions**	**CSR Activities**	**Deviation**
Raytheon (1998)	SASB disclosure, Environment-Health-Safety guidelines, Diversity & Inclusion, Social Responsibility, Corporate Governance, Ethics & Compliance, Supplier Code of ethics, Human Rights(Raytheon Technologies 2021)	Investing in lifelong learning – STEM Scholarships Honoring people in service Supporting communities through monetary donations, food packages	ESG policies and CSR Activities remain at a corporate and national level. Raytheon has been complicit in war crimes through its sale of weapons.
General Dynamics (1998)	Human Rights, Environmental Responsibility, Community Support, Supply Chain Excellence, Ethical commitment, sustainable business practices (General Dynamics 2021)	Putting stop to child labor, Reduction in GHG emissions Responsible materials sourcing Community support in action STEM Educational outreach	Policies are specific to employees and United States citizens. General Dynamics has a history of human violations through weapons sale
Walmart (2001)	SASB Disclosure, Supply Chain Sustainability, Community programs, Climate change initiatives, Fair Labor practices (Walmart 2021)	Food donations, Hunger relief Fair Compensation and benefits to US employees Supporting worker dignity and safety Disaster relief	Policy implementation is restricted to the United States. Labor abuses and human rights violations continue to occur through the global supply chain.
Grupo Carso (2001)	Environmental prevention and improvement, Responsible Consumption, Recycling, Implement green technologies, Corporate Policy for Environment Protection (Grupo Carso 2021)	R&D and Training centers, Volunteering, Disease control campaigns, Organ donation	Grupo Carso has been undertaking projects with vendors which do not have environmental clearance and have resulted in damage and affected indigenous communities
AECOM (2007)	GHG reductions, Diversity Inclusion, Enriching communities, *"Blueprint for a better world"* (AECOM 2021)	Natural Disaster Recovery, Hunger relief campaigns, Provision of basics needs for communities, Water for people	AECOM has been accused of fraud in billing government organizations, and wage/hour violations
Texwinca (2003)	Environmental Impact, Reduced GFG, Reduced Energy consumption, Diversity, Employee Health and Safety (Sustainability Report 2020)	Charitable donations, environment protection activities, educational activities, Poverty Alleviation, Elderly care, Donations	Texwinca is accused of human rights violations in Vietnam factories and there is no update on reparations to the workers involved.
Astra International (2004)	No deforestation, no burning, Reduced GHG, Peatland Conservation, Respect for human rights (Sustainability report 2020)	Health, education programs, green lifestyle campaign, nature conservation, Entrepreneurship program	Astra has stopped publishing its plantation land figures. No plans for afforestation as compensation for environmental damage. No rehabilitation of impacted indigenous communities
Petroleo Brasileiro Sa (2001)	Low carbon economy, Climate Resilience, Forest Conservation, Reducing GHG emissions, Increasing Biodiversity (Petrobras Sustainability 2020)	Afforestation, Water Spring conservation, Child education, Life and Safety programs	Corruption at Petrobras has been engulfed in corruption, bribery with politicians and parties for a decade with more recent news surfacing about political interference in company management.
Apple Inc (1998)	Accessibility, Education, Environment, Diversity&Inclusion, Supplier Responsibility, Privacy(Apple ESG 2021)	Electrification of rural villages, Teach to Lead India, Support mercy corps, Charity drives	No benefit to suppliers in Apple's global chain, Human Rights violations increased in 2017, Violated regional labor laws, Battery gate issue to boost sales
Microsoft (1998)	Environment – carbon negation, recycle/reuse, Waste reduction, Fundamental Rights, Global Human Rights, Supplier Responsibility, etc.	Global skills initiative, Donations, and discounts, CO2 reduction by suppliers, community support campaigns	Child labor in Congo, human right abuses in the cobalt supply chain, Lower wages rates and long hours in the global value chain, Internet censorship in China
Nestle (1998)	Restore-protect environment, Improve livelihoods, Promote healthy products, Carbon reduction, Recycle-Reuse, Human Rights Nestle (Schneider and Bulcke 2020)	Healthier kids and global youth initiative, Caring for water, renewable energy, Gender balance acceleration a work, farmer training, job opportunity creation, responsible sourcing of materials, GHG reduction, zero waste disposal	Slavery in Thailand, human right abuses, environmental destruction, Child slavery abuse in West Africa

Company (Initial investment year)	**Policies inclusions**	**CSR Activities**	**Deviation**
Amazon Inc (2000)	Carbon Reduction, GHG Emissions, Renewable Energy, Sustainable transport and living, Human Rights, Community outreach, etc. (Amazon 2019)	Amazon Relief Fund, Device donation program, Worker education and empowerment, cash and product donations, employee health and safety programs, water and waste recycling, carbon emission reduction	poor working conditions for delivery personnel, miscalculation of wages, overwork and no pay, discrimination, bullying, and tight delivery deadlines compelled personnel to speed drive, no time for meals and breaks. Price fixing, Anticompetitive practices, environmental violations.
Drax Plc (2005)	Sustainable Biomass, Carbon reduction, Environmental Impact, Social Impact, Supplier sustainability for suppliers, Ethics & Integrity(Drax 2021)	Free gas and electricity for 2 months to 162 independent care homes, Laptops, and prepaid internet to 50+ schools, Community engagement, and charity programs towards natural disasters and the pandemic	Acquisition results in biodiversity loss, increased carbon emission, displacement of indigenous people. Excess volatile compounds have led to health impact on people, air quality breaches, biomass power station burns imported wood and emits 13 million tons of carbon
Rio Tinto (1998)	Environmentally responsible operations, Renewable energy, Human Rights, Climate Change, Communities, Ethics & Compliance(RioTinto 2021)	Training, employment, small business development, payment of taxes and royalties to landowners, community investments, donations	Human rights violation in Bouganville, air pollution, toxic impact on water, tons of mine waste left after divestment from mine.
Nutrien Ltd. (1998)	Carbon program, Community welfare, Zero hunger, Climate change, GHG Emissions, Responsible supply chain, Diversity & Inclusion, Human rights protection (Nutrien 2021)	Training& Development, Programs for American growers, reduction in water wastage, Recycle and reuse of plastic, Women leadership	Material sourcing via the third party, Link to western Sahara via China, Sale of contaminated fertilizer to farmers, Environmental violations, Workplace violations, Railroad violations

5.1.1 Pretentious Policies

Policies are deemed pretentious when they state to be compliant with regulations whereas there is little proof to substantiate the claims.

The GPFG invests only in listed companies. All portfolio companies in this study, have detailed policies published and communicated at a corporate level. The institutional theory states that the profit-maximization tendency of corporations does not provide them an impetus for socially responsible engagement. (Campbell 2007) further argues that the probability of organizations to act in socially responsible ways, is higher due to regulatory mandates and monitoring by independent institutions. The institutionalization of environment and sustainability compliance has thus led companies to draw up policies in a reactive way than with genuine follow-up action. The competition to demonstrate goodwill and concern towards society and the environment is growing. The race towards compliance is driving companies to document and publish more but act less. Compliance to standards, may be a reaction to cover up malpractices and dress up the organization. (Freeman and Liedtka 1997) state that organizations need to be inclusive of all stakeholders affected by their business especially societies and communities in which they operate. The concept of shared value is to make a positive impact. However, companies seldom operate in concurrence with their policies except for stakeholders in the inner circle. Most of the portfolio companies show little adherence to their guidelines. A careful observation of policies suggests that clauses defined appear as a smokescreen to cover violations.

A study of pro-human rights policies of Raytheon, General Dynamics, suggests that they are altruists. In contrast, it is reported that their businesses are contributing to war between nations, resulting in massive loss of life. Astra, a palm oil producer has greening and people empowerment initiatives as a policy. Due to the nature of its business, it has reportedly caused sustained large-scale deforestation and violence against and displacement of indigenous communities. Such inconsistencies suggest that companies publish grand policies for the legitimacy of their businesses.

5.1.2 Ceremonial CSR

> *CSR activities when done for corporate or social legitimacy than for actual impact are termed as ceremonial.*

Actual corporate activities may not support the well-documented policies. The scope of policies may be global, in contrast, the actual impact is relatively minimal. Most of the companies seem to operate CSR activities on the sidelines with spare time, effort, and money. One such example of a portfolio company with greening initiatives is Astra. It has been engaged in urban greening and educational schemes for awareness. A real measure of its implementation may well be afforestation in the rainforests that were damaged. Alongside the restoration of livelihoods of indigenous communities would make a positive impact. Likewise, Raytheon and General Dynamics promote STEM education and scholarships, and food donations. These activities do not benefit the war impacted community. (Graafland and Smid 2019) state that decoupling arises due to the conflict between having to gain legitimacy from conflicting stakeholders and maintaining internal efficiency. Often organizations focus on managing business goals towards profit maximization. To circumvent the pressure from stakeholders and ensure institutional compliance, some attention is given to CSR activities. Thus, the implementation of stated policies remains to be a formality.

5.2 Strategic response to dependence on GPFG's investment

To remain invested, the GPFG has laid out expectations for companies in alignment with UN SDGs. It wishes to serve as a catalyst for transparency and good conduct in business. Its investment model along with ethical principles endeavor to enable standards for portfolio companies. On the other hand, due to their dependency on capital from the GPFG, companies seem to do just enough to comply with the exclusion criteria while engaging in internal activities that may not be compliant with GPFG's expectations. Prior studies by (Kraatz and Block 2008) suggest how organizations operate with a multi-dimensional environment and how confronting institutional pluralism pushes them to play different roles. The response to such pluralism is aptly relevant to GPFG's portfolio companies. Compounding the situation is the organizational, market, and cultural context in which portfolio companies are embedded. Furthermore, the transparency index varies greatly between regions and this may impact how businesses operate differently in Norway and the country of the portfolio companies. (Greenwood and Hinings 1996) state that the ability of organizations to act on their beliefs, capability, and interests plays a key role in radically changing themselves in the face of external institutional pressures. Additionally (Greenwood et al. 2011) highlight diverse logics within an organization itself which hinder the implementation of initiatives and the importance of recognizing the need for change ideally should not be exogenous. A company's response to GPFG's exclusionary decision suggests exogeneity. Portfolio companies in the GPFG universe have divergent organizational and cultural settings. Their reactions to GPFG's sanctions indicate that companies are rushing to save their image and restore the loss of capital. It is important to understand the factors impacting the inability of companies to comply with standards laid out by the SRI leader.

(Sustainability-Reports 2016) website in their article explains the reasons for the divide between the investor and companies on sustainability.

- A mismatch between benchmarks - terminology, indicators, measurement
- Timeframe – Environmental and sustainability compliance is an ongoing initiative with targets for improvement. Expectations of short-term results can be futile.
- Capabilities – Insufficient shared understanding between parties of the capability to comply.
- Relationships – Loose coupling between parties and lack of engaging approach
- Resources – Inadequate time and resource allocation to sustainability projects which are less prioritized than financial goals.

GPFG's portfolio companies display divergent behavior due to most of the above reasons if not all. Following subsections elaborate the effects of an exclusionary approach due to the dependency on GPFG's resources. Relevant portfolio companies are listed for each subsection.

5.2.1 Evasion & Lack of transparency

Evasion is defined as avoiding or shirking what is agreed to as per policy. Lack of transparency is avoidance or under-representation of relevant information involving dishonest and deceitful behavior.

Astra has been excluded by the GPFG in 2015 for deforestation, peatland destruction causing severe environmental damage in the rainforest. Fires caused smoke fogs impacting the health of the indigenous people and wildlife. While it increased its possession of plantation, a study of the annual reports shows the absence of reporting of the hectares as compared to the previous years. Plantation hectares - 297579(2014), 297862(2015), 297011(2016), 297261(2017). After worker abuse at its subsidiaries, Texwinca ceased Megawell operations without any reporting of impact on its workers. It stated that the directors retired, and it started its garment factories however there is no information on the new ventures. After being excluded by the GPFG for the production of anti-personnel landmines, Singapore Technology Engineering declared that it had halted its production. However, it had not acceded to the Mine Ban Treaty and neither had it declared the status of its stockpile. Nutrien Ltd was excluded due to fundamental rights violations in Western

Sahara, and later it stated that it withdrew its operation and sourcing of phosphate from the region. Western Sahara Resource Watch, a network organization, reported that Chinese company Sinofert Holdings was an entrant in phosphate trading from Western Sahara. (MarketScreener 2021) listed Nutrien Ltd as a shareholder of Sinofert with 22 percent holding.

No.	Company (Initial investment year)	Violations
1.	Singapore Technology Engineering (1999)	Evasive reporting about landmine stockpiles Not acceded to Landmine Ban Treaty
2.	Texwinca (2003)	No information about the new garment workshops started by Texwinca
3.	Astra International (2004)	Stopped reporting plantation hectares
4.	Nutrien Ltd.	Nutrien maintains the Western Sahara link via China-based company Sinofert where it has a 22% holding

5.2.2 Corrupt Behavior & Complicity

Corrupt Behavior may include bribery, embezzlement, lobbying, extortion, nepotism, mal-politics, patronage.

The GPFG withdrew from Raytheon, General Dynamics, Walmart, Grupo Carso, AECOM, and Petrobras due to non-compliance with expectations and severe violations. Subsequently, when these companies stated their corrective actions in response to the sanctions, GPFG re-invested in them. But these companies have been engaged in non-ethical practices in other aspects. Additional violations by companies are listed below. Corruption at Petrobras continued even after re-inclusion in the GPFG and recently executive personnel at the company have reported internal roadblocks in investigations. Raytheon and General Dynamics have been the top suppliers of arms in the Saudi war causing loss of lives in Yemen. Walmart has taken corrective action only in the Americas whereas violations in its global supply chain continue. Grupo Carso has sold off its tobacco company, but it executes environmentally hazardous projects with its clients Pemex and AMLO. On the other hand, GPFG excluded Bharat Heavy Electronics Ltd due to its partnership on an environmentally sensitive project. AECOM sold off its defense consulting arm, however, it has been involved in corrupt behavior in federal projects. Nutrien was involved in selling contaminated fertilizers to farmers. These companies have shown a clean image of themselves for reasons that they were excluded. Nonetheless, they have been complicit in other areas either by themselves or with other parties.

No.	Company (Initial investment year)	Additional Violations
1.	Raytheon (1998)	•One of top 4 US Arms suppliers to Saudi •Complicit in Yemen war catastrophe •3 billion USD in bomb sales in Yemen war •Took advantage of federal loopholes for deals •Lobbying against the governmental curb on weapon sales
2.	General Dynamics (1998)	•Complicit in 2018 War crimes against children •One of top US Arms suppliers to Saudi •Complicit in war crimes •Supplier of ammunitions in Palestine war •Profiting from wars and global conflicts through its billion-dollar international arms sales
3.	Walmart (2001)	•Gender-based discriminations •Human rights abuse in the supply chain in non-US regions •Policy practice gap – Code of Ethics published in Annual reports
4.	Grupo Carso (2001)	•Drilling and oil platform services for Pemex, a known environmental offender •Construction of the AMLO Mayan Rail causing irreparable environmental damage and endangering forests and species •Construction of AMLO's industrial park projects in Isthmus of Tehuantepec without an environmental impact study
5.	AECOM (2007)	•Systemic Corruption by submitting false claims •Fraudulent billing to US Energy Department •Complicit in false file claims, fraud charges, wage, and hour violations
6.	Petroleo Brasileiro Sa (2001)	•Systemic Corruption and political involvement •Recurrences of corrupt practices despite policies •The Chief Compliance officer reported roadblocks in the internal investigation •Stopped participating in national good governance program •Oil spills between 2014 and 2020 have caused environmental damage •Severe political interference in management activities leading to the removal of CEO
7.	Nutrien Ltd. (1998)	•2018, Farmers Claim Nutrien Knowingly Sold Contaminated Herbicide

5.2.3 Armlength Morality

> *Organizations engage in moral practices by defining global policies, however, the implementation and relevance of these policies are restricted to the privileged sectors with little or no benefit to the lower tiers.*

In his book “Business Ethics”, Barry (2016) explains how, regardless of code of conduct, principals and agents exchange goods or services resulting in exploitation. Most portfolio companies and the GPFG self-declare promotion of goodwill and ethical behavior in their supply chains. The GPFG collaborates with the OECD and several other global organizations, towards developing guidelines for multinational enterprises. Refer to the for international participation for responsible business practices. In its 2011 edition OECD provides clear description of ethical supply chain management (OECD 2011). Several companies have drafted Supplier code of conduct based on the OECD MNE guidelines. Yet corrective and compensatory actions have been limitedly implemented only in the company's territory leaving the suppliers in the value chain to fend for themselves. (Maggioni, Santangelo, and Koymen-Ozer 2019) explain how MNEs are selective in their location strategies for economic drivers such as efficiency, lower operating costs, higher profits. Yet MNE's policies apply selectively to their home locations with little or no benefit to the agents at the lower tiers. Portfolio companies such as Walmart, Apple, Microsoft have been engaged in corrective behaviors limited to the United States. In 2018, (Global Labor Justice 2020) reported gender-based violations in Walmart supply chains, demanding corrective action. (Clarke and Boersma 2017) have researched in detail the Apple supply chain issues which include recurrent employment and environmental problems. Reporting by these global majors show amendments within their inner circles isolating suppliers thus violating the ethical supply chain norms. The due diligence initiatives do not suggest benefits to the suppliers.

Company (Initial investment year)	**Policies**	**CSR Activities**	**Deviation**
Raytheon (1998)	Human Rights(Raytheon Technologies 2021)	Investing in lifelong learning – STEM Scholarships Honoring people in service Supporting communities through monetary donations, food packages	ESG policies and CSR Activities remain at a corporate and national level. Raytheon is complicit in war crimes through its sale of weapons.
General Dynamics (1998)	Human Rights (General Dynamics 2021)	Putting stop to child labor, Reduction in GHG emissions Responsible materials sourcing Community support in action STEM Educational outreach	Policies are specific to employees and United States citizens. General Dynamics has a history of human violations through weapons sale
Walmart (2001)	SASB Disclosure, Supply Chain Sustainability, Community programs, Climate change initiatives, Fair Labor practices (Walmart 2021)	Food donations, Hunger relief Fair Compensation and benefits to US employees Supporting worker dignity and safety Disaster relief	Policy implementation is restricted to the United States. Labor abuses and human rights violations continue to occur through the global supply chain.
AECOM (2007)	GHG reductions, Diversity Inclusion, Enriching communities, *"Blueprint for a better world"* (AECOM 2021)	Natural Disaster Recovery, Hunger relief campaigns, Provision of basics needs for communities, Water for people	AECOM has been accused of fraud in billing government organizations, and wage/hour violations
Texwinca (2003)	Environmental Impact, Reduced GFG, Reduced Energy consumption, Diversity, Employee Health and Safety (Sustainability Report 2020)	Charitable donations, environment protection activities, educational activities, Poverty Alleviation, Elderly care, Donations	Texwinca is accused of human rights violations in Vietnam factories and there is no update on reparations to the workers involved.

Company (Initial investment year)	Policies	CSR Activities	Deviation
Astra International (2004)	No deforestation, no burning, Reduced GFG, Peatland Conservation, Respect for human rights (Sustainability report 2020)	Health, education programs, green lifestyle campaign, nature conservation, Entrepreneurship program	Astra has stopped publishing its plantation land figures. No plans for afforestation as compensation for environmental damage. No rehabilitation of impacted indigenous communities
Apple Inc (1998)	Human Rights, Supplier Responsibility (Apple ESG 2021)	Electrification of rural villages, Teach to Lead India, Support mercy corps, Charity drives	No benefit to suppliers in Apple's global chain, Human Rights violations increased in 2017, Violated regional labor laws, Battery gate issue to boost sales
Microsoft (1998)	Fundamental Rights, Global Human Rights, Supplier Responsibility, etc.	Global skills initiative, Donations, and discounts, CO2 reduction by suppliers, community support campaigns	Child labor in Congo, human right abuses in the cobalt supply chain, Lower wages rates and long hours in the global value chain, Internet censorship in China
Nestle (1998)	Restore-protect environment, Improve livelihoods, Promote healthy products, Carbon reduction, Recycle-Reuse, Human Rights Nestle (Schneider and Bulcke 2020)	Healthier kids and global youth initiative, Caring for water, renewable energy, Gender balance acceleration a work, farmer training, job opportunity creation, responsible sourcing of materials, GHG reduction, zero waste disposal	Slavery in Thailand, human right abuses, environmental destruction, Child slavery abuse in West Africa
Amazon Inc (2000)	Carbon Reduction, GHG Emissions, Renewable Energy, Sustainable transport and living, Human Rights, Community outreach, etc (Amazon 2019)	Amazon Relief Fund, Device donation program, Worker education and empowerment, cash and product donations, employee health and safety programs, water and waste recycling, carbon emission reduction	poor working conditions for delivery personnel, miscalculation of wages, overwork and no pay, discrimination, bullying, and tight delivery deadlines compelled personnel to speed drive, no time for meals and breaksPrice fixing, Anticompetitive practices, environmental violations.
Rio Tinto (1998)	Environmentally responsible operations, Renewable energy, Human Rights, Climate Change, Communities, Ethics & Compliance(RioTinto 2021)	Training, employment, small business development, payment of taxes and royalties to landowners, community investments, donations	Human rights violation in Bouganville, air pollution, toxic impact on water, tons of mine waste left after divestment from mine.

5.2.4 Divestitures

To maintain a clean image, companies choose to separate operations to be separate businesses with independent holdings, people, assets, existing services, and products that originally belonged to the parent company. Corporate spinoffs, cessations are a regular form of window dressing in the business universe.

Company (Initial investment year)	Industry	GPFG Action/Revoke Year	Strategic Response
Grupo Carso (2001)	Consumer Goods	Exclusion (2011/2019)	Divestment
AECOM (2007)	Industrials	Exclusion (2018/2020)	Spinoff
Texwinca (2003)	Consumer Goods	Exclusion (2019/2020)	Cessation
Nutrien Ltd. (1998)	Basic Materials	Exclusion (2011/2019)	Spinoff

Multinational conglomerates operate in multiple lines of business by themselves or through holding companies. This facilitates switching in and out businesses in accordance with market demands and business goals. As a known market tactic, companies may also use such mechanisms to manage conflicting businesses independently and maintain a clean self-image. In the context of the GPFG, Grupo Carso sold off its tobacco investments after being excluded and also due to conflict of interest with its health institutes (Chapman 2008). AECOM sold its Management

Services business to Lindsay Golberg Associates and it operates as a new entity Amentum (ExchangeMonitor 2020). Amentum executive management constitutes ex-AECOM top personnel. Texwinca ceased its subsidiary Megawell, but it continues to operate independently. Following backlash from local as well as global watchdogs, Nutrien withdrew its activities from Western Sahara. However, it has a 22 percent stake in Sinochem, the latest entrant in phosphate dealing in Western Sahara. Such deliberate isolation of unethical businesses has allowed portfolio companies to return to the GPFG's investment universe.

5.3 Focus on returns

Referring to the SRI & Council of Ethics section, NBIM officials have stated that overdoing ethical assessments could affect the financial portfolio benchmark. Yet again, the GPFG divests before publicly announcing the decision, to curb erosion of the market value of investments. This suggests the precedence of financial objectives. Following sections elaborate the varied phenomenon that emerge out of the multiple case study.

5.3.1 No action on prominent companies/ Sizeable investment after revoke action

The GPFG has made huge investments in Apple, Microsoft, Amazon, Nestlé, and earned sizeable returns. Watchdog organizations, NGOs as well as news articles report large-scale violations. To date, there seem to be no observable actions against these four majors. NBIM website does not document any action against Apple for its battery gate issue. Similarly, technology majors Microsoft, Amazon, and food major Nestlé have been engaged in human rights and environmental violations in their global value chain. The table below lists violations by majors and GPFG's investment in USD as of 2020 (NBIM 2021). Bloomberg correspondents (Ummelas and Taraldsen 2021) reported that tech stocks alone delivered a 42 percent return led by Apple and Amazon. Multiple news reports (Nelson 2018) have reported about the GPFG's capital appreciation due to high returns from technology majors. While Apple's batterygate scandal was underway in 2017-

2018, the GPFG reportedly added 130 billion USD to its portfolio in one year thanks to returns from Microsoft, Apple, and Tencent.

Portfolio Company	**Violations**	**GPFG's investment as of 2020**
Apple Inc (1998)	•Child labor abuse in Supply Chain •Despite policies, human rights violations increased in 2017 •Self-violation of Code of Conduct -Inability to sever ties with unethical suppliers •Human rights, labor standards, environmental safety, and business integrity are routinely ignored in the global value chain •Throttled iPhone performance patches, leading consumers to buy newer phones, to boost sales •As recent as 2019 state that Apple violated Chinese labor laws by hiring 27% temporary workers against the permissible limit of 10%	21.64 billion
Microsoft (1998)	•Despite Supplier Code of Conduct – Human right abuses in Cobalt supply chain •2019 – Child labor in Congo •2010 report - Child labor at lower wage rates and long work hours •2019 – Complicit in Internet Censorship in China	17.27 billion
Nestle (1998)	•Despite Code of conduct - Complicit in several human rights, child rights, and environmental violations •Bonded labor in Thailand while involved in a child labor lawsuit in Ivory Coast •Nestlé follows the OECD Guidelines, but complicit in human right abuses and environmental destruction their supply chain	9.11 billion
Amazon Inc (2002)	•Publishes an elaborate Code of Conduct and Ethics 2018 report - poor working conditions for delivery personnel, miscalculation of wages, overwork and no pay, discrimination, bullying, and tight delivery deadlines compelled personnel to speed drive, no time for meals and breaks •Price fixing, anti-competitive activities •Environmental violations •Wage and Hour violations •Failure to protect consumer	14.52 billion

The above portfolio companies were taken as a sample to compare the consistency of GPFG's strategy of ethical investing. At the outset, the investment trend despite the violations and the non-action from the GPFG against these companies indicate that financial objectives at the GPFG take precedence over ethical investing. It is essential to understand the psychology of ethical investing vis-à-vis financial objectives. (MacKenzie and Lewis 1999) explain that ethical investors are not ready to forego their financial objectives. Due to several considerations, ethical investors pursue a compromise investment approach by distributing capital with varying ethics/returns profiles. Ethical investors are driven primarily by capital return on investment. The GPFG seems to be following a similar SRI approach while maintaining returns on investment.

Another observation about the GPFG's investment into portfolio companies is that the investments have significantly increased after revoking action. From the available information, it is known that the revoke action is taken by the GPFG, after the portfolio company publishes a corrective statement. The documentation available on the NBIM website does not indicate any corrective behavior or compensation towards impacted parties. Additional violations by companies seem to continue. There is no proof to support consistent positive behavior. In such a case, the portfolio company may not merit increased investments after the revoke action. As an example, Petrobras was excluded in 2016 due to systemic corruption and it was re-included by the GPFG in 2019 given the reduced risk of corruption. A reduced risk may not guarantee the elimination of the behavior. In a 2019 interview, Petrobras' former Chief Compliance officer disclosed that managers obstructed internal investigations. As of 2021, Petrobras' Chief Compliance officer stepped down followed by a mass resignation due to the CEO's removal. Evidently, corruption continued behind closed doors. It remains to be seen how the GPFG responds to Petrobras' current scenario.

Company (Initial investment year)	**Industry**	**GPFG Action/Revoke Year**	**Investment before Action year (USD)**	**Investment after Revoke year (USD)**
Singapore Technology Engineering (1999)	Industrials	Exclusion (2002/2016)	2296668	53591797
Raytheon (1998)	Industrials	Exclusion (2005/2017)	30464737	523952347
General Dynamics (1998)	Industrials	Exclusion (2005/2019)	27485951	416121280
Walmart (2001)	Consumer Goods	Exclusion (2006/2019)	3562447	186635724
AECOM (2007)	Industrials	Exclusion (2018/2020)	58464408	12361569
Petroleo Brasileiro Sa (2001)	Oil & Gas	Observation (2016/2019)	475 392 509	625 334 427
Drax Plc (2005)	Oil & Gas	Exclusion (2016/2020)	51 075 076	17 125 954
Rio Tinto (1998)	Oil & Gas	Exclusion (2008/2019)	828 758 621	2 465 192 519
Nutrien Ltd. (1998)	Basic Materials	Exclusion (2011/2019)	285 320 497	198 566 326

The above table lists a huge variance between investments before exclusionary action and post revoke action. There is no substantiation provided by the GPFG for the huge investments after the company is included back in the portfolio.

5.3.2 Subjective Assessment & Lack of adequate scrutiny

The multiple case study approach illustrates noticeable subjectivity in GPFG's diverse action across portfolio companies. Firstly, sustainability standards are evolving whereas financial standards are advanced and well-established. The SASB founded in 2011 is just a decade old whereas the FASB was founded in 1973. The maturity and the benchmarks set by the boards are determined by the effort dedicated to it since inception. Next, GPFG's organization structure may explain the gap between financial and SRI targets. Its fund management team is large, highly skilled, and well-informed about trading and investments. As mentioned earlier, the Council of Ethics is a relatively smaller team that is subordinated to the NBIM. Finally, financial performance is quantifiable whereas sustainability standards have no common ground for measurement. A portfolio company may be assessed for ROI and also how consistently it delivers the returns. In contrast, there is no measurement of compliance, severity of the violation and also the consistency of compliance or violation. The Council of Ethics deals with non-standard benchmarks while assessing each company. Consequently, the subjective assessment reflects in the treatment of portfolio companies.

Investment Year	Company Name	Initial investment (USD)	Divestment Year/Action	Current Investment (2020)
1998	Jardine Matheson Holdings Ltd	1941367		165904088
1998	Jardine Strategic Holdings Ltd	1775657		90554293
2008	Astra Agro Lestari Tbk PT	743991	2011/Excluded	0
2004	Astra International Tbk PT	2076682	2015/Observation	66116242
2004	Jardine Cycle & Carriage Ltd	1891649		27196281

Figure 8 Astra's company structure & GPFG's investment trend after observation decision

Astra's subsidiary's destruction of rainforests has impacted indigenous communities and wildlife. The extent of the destruction could have evoked an exclusion decision from the GPFG, yet it was limited to an observation decision. Texwinca was excluded due to human rights violations at its subsidiary. The severity of the violation is not known. GPFG's investment in Astra's parent companies viz. Jardine Matheson Holdings Group, is significant. Despite GPFG's observation decision for Astra, investments have increased in all Jardine Matheson companies. The comparison of Astra and Texwinca suggests subjective assessment.

Bharat Heavy Electronics Limited has been excluded based on an assessment of the risk of severe environmental damage due to a project contract with Bangladesh. Likewise, Grupo Carso has been involved in contracts with Pemex client projects causing severe environmental damage, yet GPFG has revoked the exclusion only based on the withdrawal from the tobacco business. In the case of Walmart, GPFG revoked the exclusion based on Walmart's statement of corrective action. Watchdog organizations and news articles report continued violations in Walmart's supply chain. GPFG follows OECD's MNE guidelines for supply chain excellence, yet it has overlooked Walmart's piece-meal approach towards making amendments. Management of portfolio companies with violations illustrates subjective assessment and lack of adequate scrutiny by the GPFG. The comparative study of multiple cases in this research reveals gaps in the ethical investing approach.

5.3.3 Lack of holistic accountability

In their paper "The Norway Model" (Chambers et al. 2011) state that the GPFG is primarily a professionally managed fund. The capital belongs to Norwegian citizens who mandate that the shared ethical values be propagated across portfolio companies. Driven by Norwegian values of safeguarding the environment and society, the GPFG has endeavored into ethical investing. This is a positive indicator of excellence and value in the business ecosystem where Norway attempts to foster its environmental, social and governance practices in portfolio companies. It is well-known that companies operate in a divergent environment compared to the GPFG. First, the implementation of GPFG's expectations is not easy. Second, the GPFG's assessment of portfolio may be noncomprehensive. Refer Table 3 for additional violations by portfolio companies than those assessed by the GPFG. A careful evaluation of Table 2 and Table 3 helps understand the gap in the assessment of violations by the GPFG. In principle, portfolio companies lack comprehensive accountability of their actions. As also the GPFG lacks a holistic approach of applying several aspects of its expectations simultaneously. An isolated assessment of expectations may cause increase violations in other aspects and lead to further decoupling behavior. Third, the GPFG lacks an integrated assessment of portfolio companies about their undertakings with other companies in the supply chain. ESG policies of majors like Walmart, Microsoft, Apple, Amazon have been benefiting their inner circles while ignoring players in the value chain. The lack of a more comprehensive assessment hinders the GPFG's approach to ethical investing.

5.3.4 Lack of reparatory mechanisms

The GPFG has laid down broad-level expectations for portfolio companies with the fundamental responsibility to comply with norms. A within-case and cross-case analysis of the selected portfolio companies point to the fact that companies have been doing just enough to circumvent penalties imposed by the GPFG. Companies issue statements to the extent of penalty and are re-included into the GPFG. Company statements on the NBIM website, do not state the corrective measures that they have undertaken. News reports suggests that the downstream impact of violations continues to exist. This phenomenon suggests that an exclusionary strategy gives the portfolio companies a marginal incentive to genuinely contribute towards ESG activities. The primary concern for companies is to salvage their reputation, fall in market value, and capital investments. (Broccardo, Hart, and Zingales 2020) explain how companies can be actively engaged in ESG initiatives by the principal through voting rights, an intermediary, or possibly takeovers. The GPFG functions via voting rights. In another working paper (Broccardo et al. 2020), study three independent SRI strategies – divestment, boycotting, and engagement and leads them to suggest that in the corporate universe, engagement may be efficient in making companies ESG compliant. Data from the NBIM website does not suggest a significant follow-up to ensure that portfolio companies are adhering to expectations. This also may have to do with the fact that Nordic cultures emphasize on independence, ownership, and accountability for actions.

(Graafland and Smid 2019) suggests that policies can transform into reality when they are prioritized by management through high-quality implementations. The probability of decoupling is lower if the stakeholder relationships are characterized by a strong cohesion, parity in each party's expectations and understanding of policies, commitment to governance, and stringent compliance monitoring. Decades before the GPFG was launched, (Hirschman 1970) articulated contemporary theory on how a combination of "exit" and "voice" strategy translates into higher "loyalty" with various stakeholders in the value chain and greater prospect of change in the larger community. The GPFG has active voting rights in its portfolio companies. In the event of a violation, it implements its "exit" strategy. There is no evidence that that GPFG stays and exercises it "voice" by demanding compensation towards violations. It invested in Astra in 2009 despite its legacy of environmental damage which remained unchecked until Rainforest Foundation Norway published its report. Astra has not been assessed for human rights violations against indigenous communities, which was a result of the rainforest destruction. As late as 2019, in its 89-page report, (Human Rights Watch 2019), Human Rights Watch reported people losing their livelihoods. HRW approached Astra with questions regarding the rehabilitation of communities to which Astra responded with its list of economic, education, and health initiatives, none of which provide fair compensation to the affected people. The absence of an active engagement with portfolio companies also allows them to evade reparations.

5.4 Reinforcement of behaviors

Having explained the conduct of portfolio companies and the GPFG, it is also important to understand the effects of each stakeholder's behavior on the other, Refer Figure 7. For lack of global standards and the absence of collaboration with ethical investigators, the GPFG needs to rely on limited sources to know about dealings of the portfolio companies. Unless reported by local NGOs or investigators, the GPFG does not have on-ground details. GPFG recognized the violations when Rainforest Foundation Norway blew the whistle on Astra. Additionally, the assessment of companies has been subjective and siloed. Again, portfolio companies seem to be doing just enough to circumvent the penalty situation while violations may possibly continue to exist in other areas. Data suggests a lack of holistic assessment across all expectations by the GPFG. For the lack of a comprehensive investigation by the GPFG, companies engage in drafting policies to publicize good conduct. Tactical corporate actions such as spinoffs seem to thwart the negative attention from themselves. Since there is no measurement and substantiation of corrective actions, in their circles, companies continue to operate in non-compliant ways, whilst showing a clean image to the GPFG. In terms of organization structure, GPFG's investment management team is relatively larger than its ethical arm. This indicates prioritization of Return on Investment versus a comprehensive ethical assessment. Portfolio companies in turn are vigilant about GPFG's exclusionary decisions. In order to gain back capital and recognition, companies are constantly adapting their actions to comply with GPFG. This exacerbates the decoupling behavior in portfolio companies.

Despite its formidable image and capacity to exert influence, the GPFG leaves a lot to be desired for in its ethical investing strategy. In the following sections, the researcher elaborates on how engaging measures may contribute to an efficient implementation.

6 DISCUSSION

This research about the impact of ethical investment strategies touches multiple aspects of the GPFG, its portfolio companies, and society at large. Presumably a developed country like Norway with its sovereign wealth fund is doing an impeccable job. At the outset, all seems well in the GPFG universe. The phenomena that emerged aren't completely aligned with the expectations of SRI in the SWF universe. Since decoupling and strategic response to resource dependency by companies are interrelated, it is the primary part of the discussion. GPFG's shareholder primacy emerges as an offshoot of the research.

In their paper, (Tashman, Marano, and Kostova 2019) discuss the compelling factors viz. validation and reputation, for MNEs to participate in CSR. Actual implementation may be another story. In their home countries, companies are entrenched in an institutional vacuum and there is pressure from an international investor to comply with expectations. Companies struggle to cope up with the contrasting requirements. Due to insufficient time and resources, companies adopt a symbolic approach to inflate their objectives and performance through reporting and thus manage to boost their legitimacy. Relatively, the actual effort and results of policies are either minimal or non-existent. This amounts to greenwashing. As reported by Forbes, banks continue to engage in greenwashing and financing unethical sectors (Williams 2021). The banking industry perpetually witnesses a similar phenomenon wherein companies just need to paint themselves green to be able to borrow money at the lowest rates. It is not required for companies to do what they say and just stating ambitious goals earns them the right to investments. An evident resemblance is observed in the portfolio companies included in this study.

From the GPFG's perspective, SRI implementation seems to be far from holistic. With currently 9000+ companies in its portfolio, the GPFG has achieved its primary aim of diversification of investments to protect its capital and earn profits. Findings suggest that the Council of Ethics may not be well-equipped to assess and follow up with 9000 companies on actual corrective measures. As a result, it has been relying on corrective statements by companies to revoke its actions. To prove themselves worthy of re-investment by the GPFG, portfolio companies publish plans and policies, and portray their potential in media. Thus, the revoke decisions of the GPFG rely on how portfolio companies would like to represent themselves. This suggests subjectivity in assessment caused by decoupling by portfolio companies. A detailed reading of the corporate policies and code of conduct shows overstatements and emphasis on phrasing the policies. Companies have been investing in good public relations personnel than they are investing efforts in genuinely implementing these policies. Examples of observed contradictions in this research are 1. Urban greening, environmental training to cover up environmental destruction, 2. Wage, employment improvements to shield themselves from human rights violations in supply chain 3. Charity, donations, campaigns to distract from complicity in war crimes 4. Spinoffs against direct involvement in fundamental violations. This contradictory behavior of portfolio companies explains their response to GPFG's exclusionary approach. Companies aim for business growth and profit maximization. Any additional burden which is non-aligned with profits is deemed as a low priority. From a business standpoint, GPFG's SRI expectations of companies may cause a distraction from day-to-day operations. Most companies may not be equipped for the overhaul. In order to portray a clean image, companies may indulge in evasion, lack of transparency, complicity, indirect business operations through spinoffs, ceremonial CSR. In the event of an exclusion, the portfolio company's need for legitimacy and resources could drive them into added divergent behavior, thus exacerbating decoupling.

At inception, the fundamental objective of the GPFG has been primarily financial and later active ownership through proxy voting. As a first observation, the proxy voting disclosures on the NBIM website, do not provide enough observable evidence that the GPFG is actively being a steward.

GPFG has gradually ventured into socially responsible investing and incorporated negative screening and exclusionary mechanisms in its agenda. The patterns of investment, exclusion, and re-inclusion indicate that the GPFG's strategy is primarily financial with an ethical flavor to it. Second, the NBIM data shows that portfolio companies with the highest investments have not been assessed for violations despite multiple reports by NGOs and media. This aspect is questionable in the larger picture. Third, after a revoke decision, the investments into the portfolio companies show a massive increase. These three observations together point towards GPFG's focus on shareholder primacy viz. maximizing profits. Considering this aspect, companies recognize that a good return on investment can outweigh ethical considerations. Thus, with minimal corrections, companies work towards being included back in the GPFG universe. Consequently, GPFG's focus on profits, encourages repetitive decoupling behavior in portfolio companies.

Considering its guiding principles, the GPFG has laid out expectations of companies in areas of Human Rights, Children's Rights, Climate Change, Ocean Sustainability, and Water Management. However, the expectations lack rigor in terms of a mandate. An expectation reads as "*It is broadly accepted that companies have a responsibility to respect human rights, including in supply chains and other business relationships. Respecting human rights is, more generally, part of good business practice and risk management." "The Guiding Principles establish a normative starting point for companies' strategies with respect to human rights."* (NBIM Human Rights 2020). Isolated assessment against guidelines indicates tunnel vision syndrome. There are no measurement criteria or quantifiable benchmarks e.g., frequency or duration of violation. The lack of measurement of compliance suggests an inherent subjectivity during implementation. The multiple cases in this research show that the expectations are applied to portfolio companies one at a time, even though portfolio companies are violating multiple expectations. This suggests the ineffectiveness of the ethical function within the GPFG universe.

In a Harvard Business Review article (O'Leary and Valdmanis 2021), the authors approach the commitment to SRI with cynicism. *"What actually happens when investors with $100 trillion of assets commit to investing more responsibly? The answer is not much — at least so far."*. In the name of SRI, there is a growing vicious cycle comprising of capitalist inclinations, institutional decoupling and ineffective practices with no substantial positive impact.

7 CONCLUSION

This research facilitated understanding the responses by portfolio companies to the GPFG's exclusionary approach. The data suggests a variation in assessment of ethical guidelines. There is scope for improvement for the GPFG in this area. Interestingly, decoupling occurs even with the best of GPFG's intentions. Responses by portfolio companies to the GPFG's actions suggest ineffectiveness of the exclusionary approach. Compliance by companies to ethical guidelines is only to the extent of being reincluded in the GPFG portfolio. This explains the lack of cohesion and understanding between the GPFG and portfolio companies. Furthermore, prioritization of financial objectives dominates in the GPFG universe. NBIM's focus on increasing the diversity and valuation of investments is continuing. Ultimately the capitalist tendency of businesses is encouraged.

7.1 Recommendations

Firstly, the GPFG's exclusionary strategy provides an impetus to companies to invest in environmental and societal activities, albeit marginally. GPFG could possibly reduce the divergent response from companies by implementing a "voice" strategy to engage actively with portfolio companies and persuade them to be compliant. Alternatively, as Hirschman suggests, a combination of exit and voice strategy may evoke loyalty from portfolio companies to successfully implement GPFG's guidelines. This may require a structural overhaul in the functioning of the Council of Ethics team.

Further, in its current approach, the GPFG has not considered a compensation strategy for violations made by portfolio companies. A proactive compensation approach for violations would curb the tendencies towards infringements in all forms. Taking it one step further, the GPFG's current negative screening approach could include reparation clauses in its guiding principles. In its publication(Norden 2015), the Nordic Council of ministers from Denmark, Finland, Iceland, Norway, Sweden, and the Faroe Islands, Greenland, and Åland, are collaborating to address and emphasize the need for offsetting the effects of environmental destruction. Norden proposes a mandatory compensation approach to engage violators in providing resource-based (non-monetary) compensation towards restoring the affected areas. Norway's contribution to this initiative is a good lead for the GPFG to follow an active investment approach towards its portfolio companies. Similar to its guiding principles, the GPFG may develop a regulatory compensation framework for its portfolio companies. This would function as a forewarning in the sense that potential companies must proactively align their ESG behavior before and while being included in the GPFG universe. A blend of loyalty approach and a regulatory framework for compensation would bolster GPFG's image as an ethical investor and enhancing its effort in the SRI domain.

It's over a decade that the Norwegian Wealth fund has initiated itself into SRI and has touched the tip of the iceberg. Sustainability and ethics are not easy to quantify and assess. Nevertheless, with financial and reputational power at its disposal, it can further greatly invest time, effort, and monetary resources to lead the global initiatives on ethical investing. A major area of improvement would be to develop a reckoning framework for ESG norms.

Lastly, if the GPFG intends to improvise its SRI strategy, there is a need for the Council of Ethics to have an increased role in decision making. Just as the fund is financially managed with a network of professional vendors, the Council of Ethics would benefit by collaborating with renowned and trustworthy NGOs, Watchdog, investigation organizations. NBIM is already in dialogue with the

Sustainability Accounting Standards Board (SASB), and the effort would be augmented with regulation and quantification of sustainability standards. In April 2021, the Norwegian Ministry of Finance proposed that the GPFG reduce the size of its holdings for a better follow-up with companies and reduce the high cost of managing its investment portfolio. It recommends no addition of new emerging markets. Additionally, it cites weak institutions and a lack of protection of minority shareholders to effectively implement its responsible investment strategy (Reuters 2021). The GPFG may have bitten more than it can chew. Alongside other improvements, reducing the portfolio may help it to achieve a better impact in the context of SRI.

7.2 Limitations & Future Research

This study was an inductive qualitative analysis of secondary data from the NBIM website. Though the data source is open and reliable, one of the limitations is that it may not contain the most updated information at a given point. Additionally, not all aspects of the GPFG's decision-making may be published on the website. Through primary research, additional validation of the observations from this study would have helped confirm the researcher's understanding. During this study, the researcher has felt the need to possibly engage in primary research. Active collaboration with the GPFG and similar SWFs would be an interesting avenue for future research. GPFG is a forerunner in SRI and one of the few signatories of Santiago Principles. Likewise, SWFs from France, New Zealand and Australia are actively engaged in SRI using an exclusionary approach. In addition to their capital power, if SWFs assume the role of active SRI intermediaries, they could possibly steer the business universe towards higher adoption of social responsibilities. An advanced research involving multiple SWFs, their respective SRI strategies, and portfolio company responses, may provide a deeper understanding of institutional behaviors across geographies. A comparative research of SRI practices of multiple SWFs may lead to an enhancement to global standards of responsible investing. Such a research would be a positive contribution to the policies of organizations like UNPRI, SASB, OECD.

8 APPENDIX

8.1 Acronyms & Terms

SRI – **Socially Responsible Investing** is a practice wherein investors use screening, exclusion, reinvestment, and shareholder activism to persuade organizations towards environmental and social compliance.

ESG – Environmental, Social, and Corporate Governance factors are metrics used to measure organizations' performance in addition to financial context.

CSR - Corporate social responsibility is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. (Fern et al. 2021)

SWF - A sovereign wealth fund is a state-owned investment fund consist of money generated by the government, often from a country's surplus reserves. (Investopedia 2021)

GAPP – Generally Accepted Principles and Practices aka Santiago Principles are a global set of 24 voluntary guidelines that assign best practices for the operations of Sovereign Wealth Funds. (Wikipedia 2020)

GPFG – Government Pension Fund Global aka Norwegian Wealth Fund aka Oil Fund – is the sovereign wealth fund of Norway. (Norwegian Oil Fund 1961)

Portfolio Companies – Companies in which the GPFG has invested capital.

MoF – Ministry of Finance manages finances, budgets, taxation, and economic policies for Norway and reports to the Parliament. It governs the Norges Bank, NBIM, and the Council of Ethics.

NBIM – Norges Bank Investment Management is a part of the Norges Bank which manages the GPFG.

Council of Ethics – Council of Ethics is the ethical arm of the GPFG which is in charge of the screening process and recommends decisions to NBIM. It collaborates with NBIM under the supervision of MoF.

SWFI - The Sovereign Wealth Fund Institute or SWF Institute, or SWFI, is a global corporation analyzing public asset owners such as sovereign wealth funds and other long-term governmental investors.

FASB – Financial Accounting Standards Board was founded in 1973 is a non-profit organization aiming towards improvising Generally Accepted Accounting Principles.

SASB – Sustainability Accounting Standards Board was founded in 2011 as a non-profit organization striving to establish reliable and comparable sustainability and ESG disclosure standards.

8.2 International participation for responsible business practices

Sr. No	Organization
1.	OECD Principles for Corporate Governance
2.	OECD Guiding principles for MNEs
3.	UN Guiding Principles on Business and Human Rights
4.	UN Global Compact
5.	UN Principles of Responsible Investing
6.	The International Extractive Industries Transparency Initiative (EITI)
7.	International Corporate Governance Network
8.	OECD Advisory Group
9.	African Corporate Governance Network
10.	Asian Corporate Governance Association
11.	Ceres Water Hub
12.	Harvard Law Institutional
13.	Investor Program on Corporate Governance
14.	Institutional Investors Group on Climate Change (IIGCC)
15.	Sustainability Accounting Standards Board (SASB)
16.	Transition Pathway Initiative (TPI)
17.	UNEP FI pilot project on implementing the TCFD recommendations
18.	UN Global Compact Action Platform for Sustainable Ocean Business
19.	US Securities and Exchange Commission (SEC)
20.	International Accounting Standards Board
21.	UNICEF
22.	Save the Children
23.	International Labor Organization ILO

8.3 Tables

8.4 Figures

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