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**ESG Investing and Executive Decision-Making: How
Investor Pressure Shapes Leadership in
Multinational Corporations**

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ABSTRACT:

Over the last decade, ESG investing has moved from a niche to a mainstream way of investing. Both institutional and individual investors are expecting companies to operate more sustainably and are therefore demanding more sustainability-related transparency from them. This shift has fundamentally changed the way MNCs, and their leaders operate.

This master's thesis focuses on examining how ESG investor pressure shapes internal MNC leadership and decision-making. The study addresses three main research questions: the channels through which this pressure is exerted, the challenges MNC leaders face with these demands, and the resulting strategic implications this has on the MNCs and their leadership.

The theoretical framework of this thesis was built by combining three complementary main themes: ESG investing, stakeholder theory, and strategic leadership, as well as the key sub-concepts within each. The theoretical framework traces the relationship from the external investor pressure to internal executive response using the theories represented. Qualitative research methods were used in this study, and the data were collected through semi-structured interviews. The sample included individuals in executive or investor relations roles within Finnish MNCs, and the results were analyzed using abductive thematic analysis. Recurring themes were identified from the data and reflected against the theoretical framework to derive the findings.

The findings indicated that investors exerting pressure is a complex multichannel phenomenon rather than a series of direct demands. The pressure is channeled through avoidance screens, ESG analysis, financial intermediaries, and supply chain cascades. Three primary leadership challenges that emerged from the findings were: information asymmetry produced by opaque ESG ratings, regulatory volatility that disrupts decision-making, and the load for executives having to act as a link between operational reality and different stakeholder expectations. Ultimately, the findings suggest that sustainable adaptation should not just be a destination that MNCs and their leaders arrive at through external pressures from stakeholders, but an internal capacity built to outlast the volatility of investors, regulations, and market cycles.

KEYWORDS: ESG, sustainability, responsible investing, stakeholder groups, decision-making, stakeholder engagement, strategic leadership

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TIIVISTELMÄ:

Viimeisen vuosikymmenen aikana ESG-sijoittaminen on kehittynyt kapea-alaisesta sijoitusmuodosta yhä yleisemmäksi tavaksi sijoittaa. Sekä institutionaaliset että yksityissijoittajat odottavat yritysten toimivan entistä kestävämmiin ja vaativat niiltä kestään kehitykseen liittyvää avoimuutta. Tämä kehitys on lopulta muuttanut myös tapaa, jolla monikansalliset yritykset ja niiden johto toimivat.

Tämä pro gradu -tutkielma keskittyy tutkimaan, kuinka ESG-sijoittajien paine muokkaa monikansallisten yritysten sisäistä johtamista ja päätöksentekoa. Tutkimuksessa käsitellään kolmea pääkysymystä: kanavia, joiden kautta tätä painostusta harjoitetaan; haasteita, joita nämä vaatimuksista aiheuttavat yritysjohdolle; sekä painostuksen strategisia vaikutuksia yritysten toiminnalle ja johtamiselle.

Tutkimuksen teoreettinen viitekehys rakennettiin yhdistämällä kolme toisiaan täydentävää pääteemaa: ESG-sijoittaminen, sidosryhmäteoria ja strateginen johtaminen sekä näiden alle lukeutuvat keskeiset alakäsitteet. Muodostetun viitekehysten avulla analysoitiin, miten ulkoinen sijoittajapaine välittyy monikansallisten yritysten sisäiseen päätöksentekoon. Tutkimuksessa käytettiin laadullisia tutkimusmenetelmiä, ja aineisto kerättiin puolistrukturoitujen haastattelujen avulla. Osallistajat edustivat suomalaisia monikansallisia yrityksiä ja toimivat johtotehtävissä tai sijoittajasuhteiden parissa. Aineisto analysoitiin abduktiivisen temaattisen analyysin avulla. Aineistosta tunnistettiin toistuvia teemoja, joita peilattiin teoreettiseen viitekehukseen johtopäätösten muodostamiseksi.

Tulokset osoittivat, että sijoittajien harjoittama painostus on monimutkainen ja monikanavainen ilmiö, joka koostuu muustakin kuin suorista vaatimuksista. Painostus välittyy sijoitusten poissulkemiskriteerien, ESG-analyysien, rahoituksen välittäjien sekä toimitusketjun heijastusvaikutusten kautta. Tästä paineesta nousee esiin kolme keskeistä johtamisen haastetta: läpinäkymättömien ESG-luokitusten aiheuttama informaation epäsymmetria, päätöksentekoa häiritsevä sääntelyn epävakaus sekä johtajien taakka toimia operatiivisen todellisuuden ja sidosryhmien odotusten välillä. Tutkimustulokset viittaavat siihen, että kestävään kehitykseen mukautuminen ei saisi olla ulkoisen paineen sanelema päämäärä, vaan sisäinen kyvykyys, joka on rakennettu kestämaan sijoittajien, sääntelyn ja markkinasykliä vaihteluita.

AVAINSANAT: ESG, kestävä kehitys, vastuullinen sijoittaminen, sidosryhmät, päätöksenteko, sidosryhmien osallistaminen, strateginen johtaminen

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1 Introduction

Sustainable investing has changed from a more niche strategy into a major driver of market change. A growing number of investors are even more closely examining how corporations integrate sustainability into their operations and are seeking out the best ways to invest in companies doing so. The concept of sustainability is no longer perceived as equivalent to generosity or for it to be a compromise in financial returns. Rather, it is noted as a good method of long-term risk management (Bril et al., 2021, pp. 1–2). As ESG issues have started to become more and more recognized, stakeholders are also placing greater expectations on companies to incorporate these considerations into their business practices. Evidence suggests that both individual and institutional investors are increasingly integrating various ESG metrics into their decision-making processes (Bril et al., 2021, pp. 24–25).

This shift in the sustainability landscape represents an advancement from what was traditionally called socially responsible investing (SRI) to more data-driven sustainability focused decision-making. Today, SRI is focused on three main areas: values-based avoidance screens, analytical ESG investing, and corporate engagement and impact investing (Townsend, 2020, p. 1). For MNC leaders, these three areas represent the primary channels of external pressure related to ESG investing. However, these categories only serve as a foundational framework and do not represent the full scope of ESG-related influence. While they are useful for understanding investor pressure related to ESG, they do not fully capture how corporate leaders experience and interpret such pressures. According to Townsend (2020, p. 2), of these three, the forward-looking, data-driven ESG investing has become the predominant form of socially responsible investing. It has gained popularity in the investment community and has overtaken the term SRI in mainstream usage distinguishing sustainable investing from so-called traditional investing.

Kräussl et al. (2023, p. 2) point out that upon initial observation there is not always a widespread consensus on whether ESG investing benefits investors. While some see it

as a way to profit, others might see it as a way to do good while making financial sacrifices. While skepticism about greenwashing remains, more widespread research done by Aydoğmuş et al. (2022, pp. 124–125) examining 1720 firms from 2013 to 2021, shows that a high combined ESG (environmental, social, and governance) score has a significant and positive relationship to the value of the firm. Firm value was measured by Tobin's Q, a ratio comparing a firm's market value to its asset value, and profitability by return on assets (ROA). A study by Iyer (2024, p. 4) supports this and shows that in the period between 2019 and 2023, ESG funds have outperformed traditional non-ESG funds every year, with the only exception being the year 2022.

This shows that firms that operate according to the ESG standards set by various stakeholders are most often rewarded by the market for their efforts. This demonstrates why those in managerial positions should prioritize ESG objectives. It needs to be noted that different components of ESG create vastly different challenges for companies depending on the industry and region that they operate in (Capelle-Blancard & Petit, 2017, p. 936; Tutar et al., 2025, p. 13). Regarding the relevance of this topic, Iyer (2024, p. 4) notes that the most significant growth in the field of ESG investing has begun in the last ten years, most noticeably after the year 2017. This expansion after 2017 presents a good timing for this study, as it means ESG investing is no longer a recently emergent trend but an established permanent force in the markets and its ready for a broader examination. Leaders are now being held accountable to actual sustainability data and not just promises.

Responding to this shift requires leaders to manage a diverse network of different stakeholders. This includes stakeholders also beyond financiers, such as employees, local communities, and suppliers. The stakes that different stakeholders do hold vary widely but are still interconnected (Wasioleski & Weber, 2017, pp. 3–4). Managing these groups as well as individuals is an important part of running a business successfully, therefore, a leader cannot prioritize one group too much over the other. Wasioleski and Weber (2017, p. 6) highlight that stakeholders do not work alone. They rely on a shared

connection to create value that is not possible to achieve individually. Within this network of different stakeholders, financiers have traditionally held a power position. With the rise of sustainability issues and their relevance, this stakeholder group's demands have grown relevance and also shifted.

This thesis explores the growing salience of these ESG investors within the multinational context. By possessing multiple degrees of power, legitimacy, and urgency (Mitchell et al., 1997), these financiers have emerged as a significant force that has the power to shape corporate and leadership priorities. Rather than assuming that these investors have total control over companies, this study examines whether the increased expectations of these investors require a shift in the managerial focus, moving from more traditional operational routines toward a more adaptive, strategic leadership approach.

This external demand, along with the inherent complexity, multiple supply chains, and long-term scope of sustainability goals, means that leaders have to think about more than just day-to-day operations. ESG pressure as a whole is driven by regulatory requirements, customer expectations, internal governance and broader stakeholder demands that all contribute to the bigger compounded nature of ESG pressure. Bolognesi et al. (2025, p. 17) note that while these sources of pressure are interconnected, they are also distinct to each other in their mechanisms and effects. As an example, investor pressure and regulatory pressure can substitute for each other. Under mandatory regulatory regimes, investor engagement and its pressure on companies decreases, showing that these are two distinct forces, rather than one same form of pressure.

Investor pressure does not operate in isolation, and it can be distinguished by its mechanism. Investors exert influence through financial channels which include capital allocation, activist engagement and also shareholder voting rights. This can give investors a more immediate effect on leaders decision-making than regulatory or

customer driven pressures. This thesis focuses specifically on investor pressure as a primary channel, with the evidence by Yoo (2025, p. 15) suggesting that investor pressure is the most significant driver of ESG compliance for companies. In this context, decision-making regarding sustainability is no longer a simple calculation of profit made, but it requires skills to navigate trade-offs between shorter term financial goals and long-term sustainability targets.

This thesis investigates whether this ESG shaped demand necessitates a distinct leadership approach. Stowell and Mead (2016, pp. 3–4) define strategic leadership as an approach that integrates the traditional operational responsibilities that leadership has but executes them in a more proactive way that prioritizes the company's future outlook. Strategic leadership tries to prepare for the future instead of getting stuck in day-to-day operations. It also accomplishes responsible leadership and prioritizes the critical strategic obligations.

Effectively adapting strategic leadership into organizational action requires robust planning. For instance, a company's short-term plans must be based on and aligned with the company's long-term strategic objectives, defining the organization's goals and required resources. For effective implementation, these long-term plans and required resources are broken down into smaller timeframes that directly inform the leader's day-to-day decision-making. Ultimately, the resulting plan, or strategy, serves as the essential guiding framework for both management and employees (Frankl, 2015, pp. 95–97). However, translating the often-abstract metrics of ESG into this concrete strategic framework presents a possible challenge for MNC executives and forms an interesting area for study.

1.1 Purpose of the study

A significant body of research has been conducted on the subject of ESG investing, its reporting mechanisms, and its financial implications for investors. This field is also deeply interconnected with various stakeholder theories that define the firm's external

obligations. However, limited research exists on how ESG investing affects the internal decision-making processes of MNC leaders. Unlike domestic firms that operate within a single institutional environment, MNCs must simultaneously operate within multiple diverse regions where ESG strategies have to be aligned to with both local institutional pressures and broader global standards. MNC leaders must also be able to manage cultural differences and understand how ESG goals are perceived and implemented across different regions (Chen et al., 2025, pp. 25–26; Lee et al., 2025, p. 10386). The intersection of ESG investor pressure, multilayered stakeholder demands, and cross-border MNC leadership creates a unique dynamic that warrants further empirical study.

The necessity of this study stems from the evolution of the global investment landscape, where failing to adapt to ESG criteria risks both long-term financial viability for a company and also stakeholder trust. The speed of this transition is underlined by empirical evidence: 98.6% of S&P 500 companies published an ESG report in 2023, which is up from 92% in 2020 (G&A Institute, 2021, 2024). Globally, KPMG's 2022 analysis shows that 79% of the N100 group, representing the 100 largest companies of each country included in the study, are reporting on ESG matters (KPMG, 2023, p. 6). This data-driven ESG environment is further intensified by the European Union's Corporate Sustainability Reporting Directive (CSRD), which came into effect in 2024. The CSRD mandates nearly 50,000 companies in the EU to disclose over 800 specific data points and metrics under the European Sustainability Reporting Standards (KPMG, 2023, p. 4). The high regulatory push from EU reinforces the expectations of ESG focused investors. Investors can also use these regulations as a base for their demands and to further necessitate their agenda.

While this tightening regulatory environment increases the pressure for sustainability related transparency, limited research exists on practical challenges leaders face in translating these metrics and legislation into a strategy. Non-compliance with these new reporting standards places companies also in direct conflict with the law and beyond the legal issues, such failure shows a disregard for wider environmental and social issues. It

risks firms' credibility and stakeholder trust while also limiting investors' willingness to invest in them and causing stakeholders to question companies' commitment also to their broader business operations. Given the growing influence of ESG-oriented investing and the tightening regulatory environment, it is increasingly important to understand how MNC leaders experience and respond to these external pressures.

The aim of this thesis is to address a knowledge gap by examining how ESG-focused investors influence the strategic leadership practices and decision-making of multinational corporation executives. While existing research covers ESG reporting extensively and investor returns, less is known about how ESG-related investor pressure reshapes leadership practices and then translates into day-to-day managerial decisions. The objective is to uncover how leaders navigate ESG-related investor demands and demonstrate this relationship in a practical manner to show its implications in an everyday business context.

To explore this pressure and the resulting response from the leaders and companies, the research will be centered on answering the following three questions:

1. How do ESG-focused investors influence MNC leadership priorities and sustainability strategies?
2. What leadership challenges do MNCs encounter in responding to ESG investor expectations?
3. How do MNC leaders adapt their strategies to align with ESG-related investor demands?

The objectives of this thesis divide into four points. First, it examines the mechanisms through which ESG-focused investors influence the strategic priorities of MNC executives. Second, it identifies and categorizes the possible agency conflicts and leadership dilemmas that leaders may face when balancing financial expectations with different ESG mandates and regulations. Third, it analyzes the strategic adaptations and operational changes that MNCs and their executives undertake to mitigate investor

pressure and align with their sustainability standards. Fourth, it determines the key areas, such as environmental policies and governance, where ESG investing has the most significant impact on leadership. To achieve these objectives, this study uses a qualitative research design, utilizing semi-structured interviews with MNC executives to gather in-depth insights into their strategic decision-making processes.

2 Literature review

This chapter presents a review of the existing academic literature to establish the theoretical basis for the thesis. The review is structured around three interconnected pillars. First, the chapter examines sustainable investing (ESG), defining the changes to the landscape of sustainable investing and identifying the mechanisms that apply external pressure on firms. Second, it utilizes stakeholder and the stakeholder salience model to explore if these investors can be defined as definitive stakeholders who hold multiple attributes of salience. Finally, it examines and focuses on the dynamics of the firm, its strategic leadership, and the decision-making process of its leaders. Together, these three main pillars form a framework for understanding the relationship between ESG investor expectations and managers' responses.

2.1 Sustainable investing

Sustainable investing has evolved from a niche, values-based initiative into a comprehensive framework for global capital allocation. While the concept has originated from the socially responsible investing (SRI) movements from the 60s to 90s, which mostly focused on ethical exclusions based on social, religious and civil rights values, the modern landscape has shifted towards more data-driven metrics, financial materiality and risk management. This change represents a shift from just expressing personal values to affecting strategic plans and into a requirement to access capital (Townsend, 2020, pp. 1–2). Consequently, for leaders of multinational corporations, this transition calls for action in strategic planning process, as the different sustainability metrics turn from more ethical and ideological concerns into raw data and metrics, that affect the company's long-term operational resilience.

Townsend (2020, p. 1) notes that sustainable investing is no longer limited to the passive exclusion of companies but involves complex interactions between corporations and investors and classifies this modern landscape into three distinct approaches: avoidance

screening, proactive data-driven analysis of a company's sustainability performance, and corporate engagement and impact investing.

2.1.1 Avoidance screens

The first approach, avoidance screening, applies specific criteria to exclude certain companies from an investment portfolio. Screening serves as an initial investment filter and can be applied alone or alongside ESG investing. For MNCs, these screens function as a direct gateway to capital. Failure to meet specific criteria might exclude one from the investment pool. The rules are not tied to any specific asset or investment strategy and can be implemented in various ways. The four main types of screens are: Negative screening, positive screening, best-in-class screening and norms-based screening (Townsend, 2020, pp. 5–6; Wagstaff, 2024, pp. 2–3).

Negative screening excludes companies based on undesirable criteria, such as screening out all the tobacco investments. In contrast, positive screening and best-in-class screening select companies based on desirable characteristics or top performers, such as strong ESG performance or high ethical standards (Townsend, 2020, pp. 5–6; Wagstaff, 2024, pp. 2–4). Additionally, norms-based screening chooses companies that follow frameworks and standards such as ESG standards, the Paris Climate Agreement or OECD guidelines (Wagstaff, 2024, p. 2). Avoidance screening is thought to form the backbone of SRI investing as most SRI and ESG funds apply some form of exclusionary screening. Given the vast volume of available ESG data and the ease of combining it with different screening tools, ESG metrics and screening tools often work hand in hand (Townsend, 2020, pp. 5–6; Wagstaff, 2024, pp. 2–4).

2.1.2 ESG investing, data driven sustainability analysis

The second of the three socially responsible investing (SRI) styles is the proactive analysis of sustainability issues, commonly known as ESG investing. This specific approach began

to gain prominence in the mid-2000s and the term ESG is thought to be rooted in a Global Compact report published in 2004 (Hill, 2020, p. 13).

The report by the Global Compact (2004, p. 5) stated that positively addressing ESG issues would be important for the quality of the management. They reported that incorporating ESG issues would benefit the company's brand and image, while simultaneously increasing shareholder value. They also addressed how it can help to manage risks, anticipate regulatory issues, and contribute to the area's overall sustainability development.

In ESG investing, the environmental (E) aspect focuses on how the company manages and protects natural resources including both the short-term and long-term risks. Short-term risks include, for example, energy consumption and fossil fuel taxonomy, while long-term risks involve, for example climate change. To achieve stable profits a company must be aware of environmental risks for its core business. Analysis on this sector has to be comprehensive and take the whole supply chain of the company into account (Bolognesi, 2023, pp. 81–82).

The Social (S) pillar is broad, encompassing social development and the quality of a firm's relationships with both primary and secondary stakeholders. The issues assessed here are extensive, covering internal matters such as employee treatment, labor laws, and health and safety protocols. Furthermore, the pillar also includes external social development concerns, such as human rights, war, and the regimes upon which the company might have an impact (Bolognesi, 2023, p. 81).

The third pillar, Governance (G), is considered the most impactful factor at the core business level, working as the structural pillar for strategic execution. From the point of MNC leaders, governance includes things such as the level of shareholder rights and involvement, the structure and composition of the board of directors, internal rules and regulations, and the transparency of strategic decision-making. Academic studies show

that a lack of transparency in governance policies can significantly harm a company in both the short and long term. This becomes particularly evident in times when the whole market is in decline (Bolognesi, 2023, pp. 82–83). Research by Kumar et al. (2024, p. 196) shows how the board's diversity in expertise, gender and nationality also leads to increased involvement in ESG activities with the ownership style of the company also being a factor in ESG involvement. It is thus suggested that sustainability outcomes may be enhanced with a more diversified board, and the strategic decisions regarding ESG should be tailored to the ownership style of the organization.

2.1.3 Impact investing and corporate engagement

Corporate engagement and impact investing constitute the third component of modern SRI moving from passive exclusion to active ownership. Corporate engagement and shareholder activism leverage their right to vote and engage with management to drive change while impact investing focuses on achieving a specific measurable social or environmental impact. Typical target sectors include clean energy, healthcare, and education (Hill, 2020, pp. 18–19; Townsend, 2020, pp. 2–5). For MNC leaders, this is one of the most direct forms of pressure. Unlike screening, which acts as a filter for capital, engagement acts as an ongoing oversight mechanism.

It is to be noted that Impact investing differs from mission investing. While the terms impact investing and mission investing are often used interchangeably in different literature and discussions, a key differentiation between them does exist. Impact investing can be pursued by any individual or organization, however, mission investing often represents the company's sole, foundational purpose (Hill, 2020, p. 19).

As ESG investing has become the dominant label for socially responsible investing (SRI), it is now commonly used as a catchall term encompassing all forms of SRI, rather than strictly referring to the data-driven ESG factor analysis (Hill, 2020, p. 13; Townsend, 2020, p. 2). Accordingly, in this thesis, ESG investing will be used as the overarching term to

describe all socially responsible investment activities and the corresponding investor pressures.

2.1.4 Demand for ESG investing

Investor demand for ESG is believed to be driven by three key interconnected developments (Townsend, 2020, p. 6). First is the evolved interpretation of fiduciary duty, traditionally defined as the obligation to act in a trustworthy manner that benefits others in financial matters. This mandate now increasingly includes considerations of ESG and other sustainability issues (Hill, 2020, p. 45). This was solidified by the United Nations Environment Programme (UNEP, 2005, p. 6) which concluded that ESG investing and its integration to decision-making is becoming an essential requirement rather than a permissible practice. This conclusion was based on the finding that incorporating ESG factors is seen as essential for fulfilling fiduciary responsibilities and that by incorporating these factors, one can more accurately estimate financial performance.

Secondly, the growing awareness of climate change has fundamentally altered the relationship between MNC leaders and capital providers. As large-scale investors increasingly integrate climate criteria to protect also their own market legitimacy, the institutional pressure is now being transmitted directly to MNC executives via financial intermediaries. While climate change has been seen in the past as an external environmental risk, it has now been adopted as one core strategic leadership responsibility, where disregard of it could negatively impact the organization's brand and, consequently, its financial performance (Townsend, 2020, pp. 6–7; Zou, 2024, pp. 31–32).

This shift is evident in a recent Robeco (2024, pp. 1, 7) survey of 300 institutional and wholesale investors globally, with the partaking investors managing a total of 28.8 trillion in assets. These investors were asked to describe the importance of climate change in their investment policy across three timeframes: two years ago, today, and two years ahead. At the time of the study in 2024, 62% of responders considered climate change a

significant or central element guiding investment decisions. Regionally, Europe (79%) and Asia-Pacific (76%), lead in prioritizing climate considerations, while North America lags at 35%, though investors expect this figure to rise to 56% within two years. Globally the share of investors viewing climate change as the central factor is projected to go from (62%) to (77%) over the next two years.

The third driver was the collapse of corporate governance revealed by the 2008 subprime mortgage crisis. The crisis exposed serious governance and ethical failures, leading investors to recognize the shortcomings of conventional financial analysis. As a result, many investors adopted ESG frameworks to more effectively evaluate governance, ethical, and systemic risks in long-term portfolio management (Townsend, 2020, pp. 9–10).

2.1.5 ESG and the shift in risk assessment beyond modern portfolio theory

At its core, ESG investing is about identifying opportunities to allocate capital towards businesses that are actively working on sustainability targets, or pressuring those that aren't, to do so (Hill, 2020, pp. 29–30). The importance of a company engaging in these factors is most notably challenged by American economist and Nobel laureate Milton Friedman (1970), who famously argued in an article that the sole social responsibility of a company is to increase its profits within legal boundaries. Friedman questions how a company could effectively and responsibly allocate money to support social causes. He argues that business leaders lack the necessary expertise to identify the most impactful needs and solutions, and that public spending and policies are already controlled by extensive democratic and regulatory framework. While this critique is mostly based on corporate social responsibility (CSR), the modern relevance of ESG investing is best understood by viewing it together with traditional financial frameworks such as Modern Portfolio Theory (MPT).

MPT as a theoretical framework is pioneered by economist Harry Markowitz (1952). The central idea of MPT is that investors seek to maximize expected return for a chosen level

of risk, aiming for the most optimal portfolio efficiency. MPT attempts to achieve this optimization by measuring the portfolio's standard deviation (risk) and variance, and by analyzing the weighted average of individual assets' performance and characteristics. MPT has stood its ground and time quite well and remains as a foundational starting point for portfolio diversification, as its core principle is to identify the most favorable correlation among different assets (Hill, 2020, pp. 98–100). However, the classical MPT framework and its way of diversifying investments relies only on traditional financial metrics, and does not factor time horizon, social factors and the global long-term economy, factors that modern ESG investing prioritizes.

By narrowing the focus to maximizing short-term financial metrics and ignoring these social, environmental and governance factors, MPT might compromise the very stability required for a sustainable global economy and, therefore, a functioning market. The three pillars of ESG analysis, environmental, social and governance, directly assess the non-traditional risks that MPT does not address in its decision-making, particularly in long term.

Following the emergence of ESG factors in the 1980s, the adoption of ESG integrated strategies has expanded, now forming the foundation for most sustainable investing strategies. These ratings are predicated on sector specific financial materiality, identifying risks unique to a firm's industry, rather than relying exclusively on their financial performance (Bolognesi, 2023, p. 96). The complexity of the ESG market is further highlighted by the sheer volume of data sources. As an example, LSEG, a company focused on ESG data collection, offers over 630 ESG metrics collected from company data for investors and researchers to utilize for each company or industry (LSEG, 2022, pp. 3–4). Another example of the rapid growth of the sustainable market is demonstrated by the volume of globally labelled ESG guided sustainable bonds issued yearly. In just 8 years, the monetary value of globally labeled sustainable bonds issued yearly rose nearly tenfold, from \$107 billion in 2016 to \$1,057 billion in 2024 (The World Bank, 2025, p. 1). This growth represents a critical shift in the cost of capital, where

sustainability performance is now becoming one of the primary determinants of a firm's ability to secure long-term financing.

The flow of ESG capital pool is typically channeled between three participants, the investors, the issuers (MNCs), and financial intermediaries, such as institutional asset managers and ESG rating agencies. They play a critical role in minimizing market inefficiencies by minimizing transaction costs, determining the borrower's creditworthiness and bridging the gap created by information asymmetry (Hill, 2020, pp. 59–60). The primary risk is information asymmetry, where the company invested in has far more knowledge of their operations and risks than the investor. This asymmetry poses a significant risk, as MNCs have far greater knowledge of their internal sustainability risks than external investors. Consequently, this imbalance can lead to adverse selection. In such cases, the market may apply a "risk premium" to the firm, which effectively undervalues its assets on the assumption of hidden liabilities (Hill, 2020, pp. 60–62).

Financial intermediaries are this way positioned as one of the primary gatekeepers who are responsible for translating both financial and non-financial ESG data into their investment suggestions and decisions. For the companies, ESG reporting and communication is important to be done in a way that the information asymmetry is reduced as much as possible and is communicated in a way that the market and financial intermediaries not only understand, but also value.

2.1.6 Performance of ESG investing

Given the trajectory of ESG investing, the definition of a good investment is arguably undergoing a transformation. This shift suggests that a company's long-term success and management of non-financial risks and matters are also being analyzed, to more accurately identify good returns by investors. With this in mind, ESG from the company's side changes from an ethical choice to a strategic necessity in order to do well in the market.

To understand how this shift translates into actual value, this section reviews the current research on ESG and financial performance.

Current research largely supports the financial materiality of ESG, particularly over the long term. Analyses by MSCI and Kroll indicate that companies with higher ESG ratings consistently outperform their peers, with Kroll observing approximately 50% better performance on ESG leaders compared to their peers. The performance gap was apparent across all major geographic regions and across all industries, except consumer staples and healthcare (Nunes et al., 2023, pp. 3–4). MSCI reported similar results, showing that companies with higher ESG ratings, outperformed their non-ESG counterparts, even after controlling factors such as company size, equity levels and geographical region (Giese & Shah, 2025, p. 4).

A broader meta-analysis by Rockefeller in 2021, analyzing over 1000 studies, further confirms this positive correlation in both corporate and investment focused research, with the emphasis that the importance of ESG management increases over longer time horizons (Whelan et al., 2021, p. 3). A higher ESG score also significantly reduces financial constraints of a company and investments made to improve sustainability and ESG ratings help companies achieve competitive advantage instead of being an expenditure (Hu, 2023, pp. 4–5). Research confirms that the high implementation costs of ESG do act as a barrier to entry. For firms facing capital constraints, sustainability initiatives are still often seen as a premium, rather than their essential operations, which results in a weaker correlation between their ESG efforts and financial performance (Ho et al., 2024, pp. 271–272). These findings further reinforce the financial and strategic incentive for leaders to prioritize sustainability in their operations.

This long-term orientation aligns with strategic leadership theory, which dictates that long-term strategic goals must serve as the foundation for day-to-day operational decisions and actions (Frankl, 2015, pp. 95–97; Stowell & Mead, 2016, pp. 3–4). However, research suggests that the financial advantages of this orientation are not originated

from the act of ESG disclosure itself. Whelan et al. (2021, p. 3) observe in a meta-analysis that for corporate performance, the financial benefits are primarily driven by improvements in risk management and sustainability related innovation, rather than merely on ESG disclosure. This shows that while ESG reporting is needed, the actual strategic benefits of it are in translating the ESG data into operational improvements.

The evidence on ESG and financial performance is not fully uniform. A meta-analysis by Hornuf and Yüksel (2024, p. 1052), reviewing 153 studies on SRI and ESG criteria, concluded that the resulting financial performance is generally indistinguishable from the market average. The research found that the perceived outcome can be highly influenced by the research methodology and amount of academic discipline used. They found that studies utilizing more complex models for market movements frequently reported a more positive performance outcome.

Differences between industries and markets also exist. Naeem et al. (2022, pp. 138–139) researched environmentally sensitive industries and found that in developed countries, ESG performance has a stronger and more significant impact on financial performance than on emerging markets. In emerging markets, the relationship between ESG performance and financial performance is largely insignificant, as stakeholders and investors tend to lack confidence in the ESG strategies or ESG reports in these countries. This lack of trust is considered to be due to the fact that ESG measures done by companies in these regions are often done just to satisfy the legal obligations, instead of trying to actually tie them to the company's long-term strategy.

Focusing specifically on the US market, a study by Escobar-Saldívar et al. (2025, p. 17) researched nearly 4,000 stocks over a 20-year period and found that firms with higher ESG ratings did show lower long-term stock returns. They found that when firms improved their ESG ratings, there was only a short-term positive reaction in the stock market. Therefore, from a capital allocation perspective, investing in ESG momentum, one could yield positive results from this in the short term.

Despite the mixed results of the short-term market performance, the overall trend confirms that ESG factors represent financially material risks and long-term opportunities. The value generated by socially responsible and ESG-compliant firms goes beyond just monetary benchmarks, encompassing numerous economic and non-financial benefits that justify their consideration. As Whelan et al (2021, p. 3) suggest, the core value of ESG integration for companies is demonstrated in improved risk management and strategic adaptability.

2.1.7 Regulation

ESG investing and reporting comes with constantly evolving regulation. Regulation regarding ESG has significantly increased in the past years, especially in the EU, with the newest development being the Corporate Sustainability Reporting Directive (CSRD) which started mandatory ESG reporting for more than 50,000 companies in Europe in 2024. The directive mandates new, exacting standards: the European Sustainability Reporting Standards (ESRS). The scope of affected companies has been significantly broadened, and these companies are now required to disclose over hundreds of metrics and targets. Furthermore, the regulation mandates double materiality, meaning that material topics must be reported from both an impact perspective and a financial perspective. The scope of topics measured is substantially extended, and reporting requires the full integration of the EU Taxonomy (KPMG, 2023, pp. 4–10).

The directive establishes minimum compliance threshold: companies are required to meet two of the following three criteria to be subject to the new regulation change: €50 million in net turnover, €25 million in assets, or 250 or more employees. The mandatory reporting also extends to non-European companies with significant operations or subsidiaries within the EU. The rules are being applied in a phased, step-by-step manner until 2030, yearly expanding the scope to eventually include even smaller companies. The timeline for mandatory reporting is as follows:

Table 1. EU CSRD implementation phases (KPMG, 2023, pp. 4–5; Taschner, 2023).

Reporting deadline	Scope of companies	Criteria
2025 (for FY 2024 data)	Large, listed companies	Those previously subject to the Non-Financial Reporting Directive (NFRD)
2026 (for FY 2025 data)	Large EU companies not subject to NFRD	Companies not tied to the NFRD but subject to meeting the criteria
2027 through 2030	Listed small and medium-sized enterprises (SMEs)	Subject to meeting specific criteria, with an option to defer reporting until 2030

The implementation of mandatory reporting, such as the CSRD, significantly adds to the importance of ESG data. The obligatory and more precise data collection will create opportunities for companies by allowing them to enhance their reputation, improve their resource use, better inform long-term planning and attract more capital. It is noted that this data collection directly facilitates for an easier integration of ESG factors into their own decision-making (Virranta, 2024).

However, even with these benefits, this kind of regulation primarily functions to pressure companies towards more ESG focused decision-making. This pressure is formed by transforming sometimes abstract environmental and social considerations into measurable financial risks that directly affect the MNC's access to and cost of capital. Consequently, the failure to report verifiable ESG reporting is not just poor publicity or against regulations, but a direct risk to their market valuation and long-term profitability.

As the previously mentioned CSRD reporting pushes its way through in Europe, in the United States, the U.S. Securities and Exchange Commission (SEC) has provided a higher-level guidance on how companies should handle their ESG and sustainability reporting leaving a lot of freedom for the companies to decide the width and depth of their reporting (Esty & Cort, 2020, pp. 162–163).

In 2024, SEC released new climate-related disclosure rules for U.S. public companies. The rules were highly challenged, and SEC did receive 24 000 comments on their new ruling. Nevertheless, the new rules in the US treat climate change more as a financial risk than a mandatory disclosure of all environmental and social impacts across the value chain, as is required in Europe. Key differences from the CSRD include that in the US, companies only need to report climate risks and their costs that could impact their bottom line or stock price. Greenhouse gas emissions (GHG) only need to be reported if they are material to the company, and there are no mandatory value chain emissions to be reported. However, on two major points, the U.S. rules are closer to being the same as the European standard: requiring companies to obtain an audit for their reported data and mandating that companies detail how they oversee climate risks and incorporate them into their business strategy (Sullivan & Cromwell LLP, 2024).

The U.S. regulation remains significantly behind the EUs due to its focus to financial materiality and large exemptions for value chain emissions. This regulatory misalignment allows MNCs to manage two vastly different reporting standards, thus still permitting a data gap in the U.S.

2.1.8 Criticism and challenges

ESG reporting and investing does not come without its challenges and criticism. One of the most persistent complaints stems from the fundamental difficulty in comparing and unifying ESG reports, directly leading to investor demands for greater standardization and transparency. Much of the sustainability data is not verified by third parties, and concrete actions are difficult to verify and distinguish from the company's strategy and aspirations (Esty & Cort, 2020, pp. 161–162, 197–198).

A second persistent challenge is greenwashing. It is defined as the faking or exaggeration of environmental results by companies trying to appear environmentally friendly to improve their reputation and attract investment. Some companies are motivated by the chance to obtain “green” funding and promise short-term improvements with no long-

term environmental changes or long-term strategies. This practice is studied to frequently be a response to heightened public awareness (Huang et al., 2025, p. 13). Greenwashing also tends to damage brand image and lead to skepticism towards all the company's operations (Kaur & Kaur, 2024, p. 801). Furthermore, research by Abdullah et al. (2025, p. 11) suggests that a CEO's personality traits, especially narcissistic tendencies, can also drive to strategic decisions that promote greenwashing and short-term goals over genuine long-term, real-life organizational change.

A further systemic challenge is the ineffectiveness of negative screening as a primary driver of real-world change. When an investor denies an investment, someone else is usually still going to purchase that stock, with the company's capital and market existence staying unaffected (Petzel, 2021, pp. 691–695). For the MNC leader, this shift in the shareholders creates a paradoxical and restrictive environment. If sustainability-oriented investors divest, the leader might then be left with a shareholder base that prioritizes short-term financial performance over long-term strategy and ESG targets.

Furthermore, a purely negative screen could also result in a situation where, if enough investors avoid a stock, its price-to-earnings (P/E) ratio could fall, and the stock would be available for this "ESG-neutral" investor to buy at a lower price as so called undervalued. Excluding stocks from one's portfolio also limits the number of stocks that might outperform the market, which could lead to a loss of profit from a performance-based perspective. This is demonstrated as an example by the fact that tobacco stocks, despite being frequently screened out, have performed well over the long term (Hill, 2020, p. 179).

2.2 Stakeholder theory

ESG investing has grown in both volume and regulatory support (Iyer, 2024, p. 4; Taschner, 2023). As these investors have accumulated more power and legitimacy, they have also gained a greater influence over corporate governance. Stakeholder theory is a

useful framework to understanding the shift in ESG landscape as it studies the organizations responsibilities beyond only its financial operations.

Stakeholder theory was selected as one of the primary lenses for this thesis, as it frames the mechanisms of how external stakeholders influence the operations of a company. Other alternatives such as sustainable leadership or responsible leadership, have a more forward-looking aspect and focus more on the individual leaders' internal motivations and values. In short, they balance people, financials and the earth at the same time (Avery & Bergsteiner, 2011, pp. 7–9). While these are valuable and could provide insights into how leaders think and act, they do not directly link to the question of how ESG investors influence their decision-making. Institutional leadership was also considered, as it addresses how different external institutional pressures shape decision-making and organizational behavior. However, as this thesis focuses on ESG investor pressure as the primary force rather than institutional forces broadly, stakeholder theory remains as the most direct and appropriate framework to use.

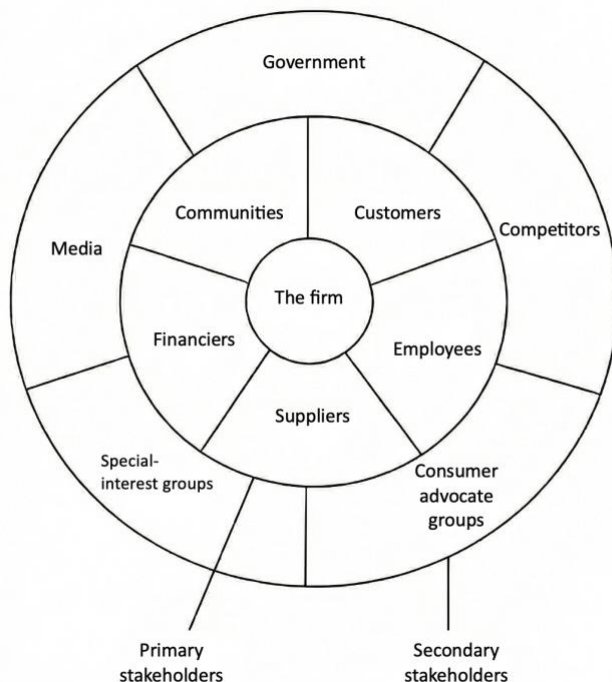
The fundamental concept of business is the voluntary trade of goods or services between different economic actors. The company's operations affect a broader range of individuals and groups than just the parties between the trade. These individuals and groups are commonly known as stakeholders. The people and groups include actors such as customers, employees, and suppliers. As the outcomes resulting from a firm's operational goals are often varied, it means that the value or well-being of different stakeholder groups may be positively affected, or negatively compromised, in differing degrees (Wasioleski & Weber, 2017, pp. 2–3).

Various stakeholders possess an interest, or a "stake" in the company's activities. Stakeholders' interests range from financial returns for investors to job security for employees, and from quality of goods for customers to economic benefits for local communities. These interests are often interconnected and frequently share overlapping interests (Wasioleski & Weber, 2017, pp. 3–5). For this thesis ESG investors are treated

as distinct stakeholder group, whose expectations can shape corporate priorities and managerial decision-making.

Edward Freeman was one of the main contributors to launching stakeholder theory in 1984 with the book: *Strategic management: A stakeholder approach*. Freeman (1984, p. vi) defined stakeholders as: “Any group or individual who can affect, or is affected by, the achievement of a corporation’s purpose.” Subsequent work by Freeman and McVea (2001, pp. 4–5) note that the need for a stakeholder framework arose from the desire to help managers in the rapidly changing business environment of the 80s, with existing strategic frameworks no longer being sufficient. In his later book: *Managing for Stakeholders* (2007, p. 7), Freeman presents a basic, two-tiered map for identifying stakeholders, which illustrates the importance of stakeholder relationships in management. This framework establishes a basis for understanding the impact of external stakeholders on managerial decision-making.

Figure 1. Primary and secondary stakeholders (Freeman et al., 2007, p. 7).



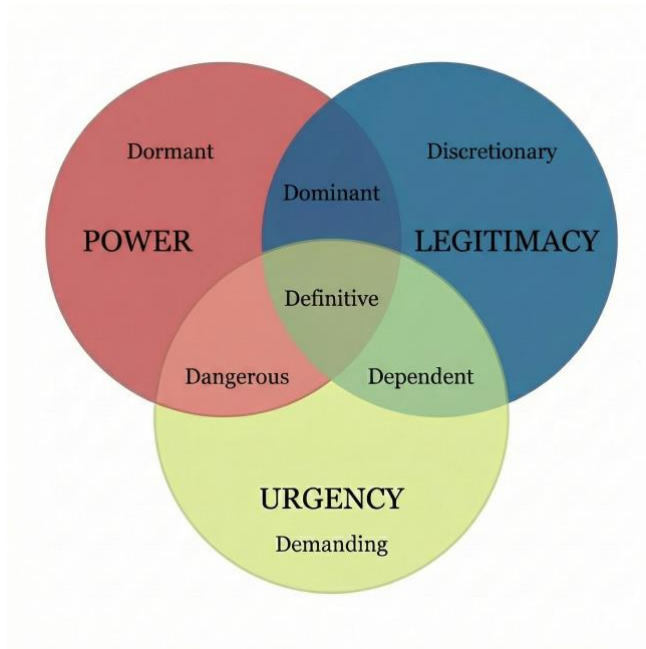
2.2.1 Stakeholder identification

Stakeholder theory provides a conceptual framework, which frames ESG investors as key stakeholders whose expectations can alter corporate priorities. According to Mitchell et al. (1997, pp. 865–868) stakeholders can then further be identified based on three key attributes:

1. Power: the ability of one party to use pressure, resources, or shared values to influence the other.
2. Legitimacy: the perception that stakeholder's action is desirable and proper.
3. Urgency: the degree to which the stakeholder's claim calls for immediate attention.

To understand how managers prioritize the demands of different stakeholders Mitchell et al. (1997, pp. 872–873) introduce the stakeholder salience model. This refers to how much prioritization is given to one group. They propose that the greater the number of attributes of power, legitimacy, and urgency a stakeholder possesses, the greater their salience. This way, the influence of stakeholders is not absolute, but is determined by the possession of these three factors.

Figure 2. Stakeholder salience model (Mitchell et al., 1997).



According to this framework, stakeholders possessing only one attribute is termed to be latent, those with two are classified as expectant, and those possessing all three of them, are defined as definitive stakeholders (Mitchell et al., 1997, pp. 874–878).

When applied to the context of this study, it can be argued that ESG investors increasingly display the characteristics that definitive stakeholders have, holding all of the three attributes. However, Parent and Deephouse (2007, pp. 16–17) note that stakeholder salience is not fixed but has a dynamic nature and is quite flexible depending on the managerial perception, and organizational processes ongoing.

Firstly, ESG investors possess power through their control over growing capital, which enables them to influence firms' cost of capital and market capitalization. As an example, inclusion or exclusion from an ESG-themed index fund can lead to abnormal positive or negative returns, persisting over 30 days (Barontini & Gioja, 2025, pp. 16–17). Secondly, their legitimacy is reinforced by tightening regulatory factors and the fiduciary shift recognizing the financial materiality of ESG (UNEP, 2005, p. 6). Finally, the sense of urgency is driven by both investor impatience and underlying risks themselves. As

highlighted by the Robeco (2024) survey, 62% of investors saw climate change as a central factor in their investment policy, with the percentage rising year-over-year. Outside of individual investors the urgency is also driven by the underlying risks, including regulatory timelines such as the Corporate Sustainability Reporting Directive (CSRD), and the narrowing window to mitigate physical climate risks.

Ryan and Schneider (2003, p. 149) however note that stakeholder urgency also varies between different investor types. Investors that require faster paced trading with active funds show higher urgency. Conversely, investors with longer time-horizons or more passive investing strategies, show lower urgency.

2.2.2 Managerial implications

Donaldson and Preston (1995, pp. 87–88) provided one of the first systematic analyzes of the managerial implications of stakeholder theory. They argued that instead of simply recognizing that companies have stakeholders who need consideration, more distinct approaches are required to show how stakeholders navigate into managerial decision-making. Their work has been widely used as a foundational basis for the theory of managerial implications. The three approaches they established for managerial stakeholder theory are descriptive, instrumental and normative approaches.

The descriptive approach presents and describes what the company is, how it is managed and how it operates. It shows that corporations are a combination of cooperative and competitive interests. This distinction implies that stakeholder theory has two categories: firms that do practice shareholder management, and those that do not. The second approach, instrumental approach, distinguishes how the relationships between different stakeholders affect the company's goals, and if companies who focus on better stakeholder management, do perform better. It mostly considers the primary stakeholders that have a financial connection with the firm. The third approach is the normative approach, which argues that each stakeholder has an individual value, and managers have an obligation morally and ethically to consider their interest. In this

normative approach, stakeholders are seen as individuals or groups having legitimate interests that should be addressed (Donaldson & Preston, 1995, pp. 66–67).

Donaldson and Preston (1995, p. 67) found that stakeholder theory should be, and is, a managerial and prescriptive framework, which requires the simultaneous consideration of the actual and legitimate interest of all relevant stakeholders in their policy and day-to-day decision-making. This also extends beyond only the managers, to anyone who is affecting corporate policies. Nevertheless, it does not imply that all the stakeholders should be equally involved in all the processes.

A third theoretical contribution emerged in the late 1990s by Berman et al. (1999, pp. 501–503) who were among the first to research how stakeholder management influences company profits in these different managerial styles, and they found that a strong instrumental, strategic stakeholder relationship tends to show better financial performance. But it was more complex than just a direct link. Two of the five researched stakeholder dimensions, employee relations and product safety/quality, had more direct link to financial performance than the other variables: diversity, community and natural environment. They also found that managing stakeholders from a more strategic and instrumental perspective led to better financial performance than adopting a more intrinsic, morally driven approach.

In relation to the concerns of ESG investors, research indicates that the financial success of ESG initiatives does depend on the level of stakeholder engagement. The data suggests that higher engagement acts as a helping force, equipping firms with needed market intelligence. When managers actively consult stakeholders, they can more easily identify ESG projects that have a positive value for the company. High engagement ensures that firms invest in sustainability issues that matter to the market rather than wasting capital on generic or irrelevant initiatives (Ho et al., 2024, pp. 271–272).

It should be noted that whether ESG investors are perceived and treated as definitive stakeholders, depends also on the context and from whom perspective it is viewed from. Things like investment strategies, perceptions of individual managers and organizational context do alter their salience. Neither does stakeholders having a high salience automatically mean that they can alter corporate strategies.

2.2.3 Mechanisms of investor influence

While stakeholder theory addresses the idea that ESG investors possess salience, it does not show the mechanism through which the investors exercise this power. The literature reviewed suggests that investor pressure reaches the executives through three main primary channels. First, the investors control the cost and access to capital. As Hill (2020, pp. 29–30) noted, ESG investing is based on finding opportunities to allocate capital into businesses that actively work on sustainability, and by doing so, also pressuring those that aren't, to do so. Second, there are institutionalized agency mechanisms, such as tying ESG performance into executive compensation and bonuses. Third, investors demand even more detailed ESG disclosures to minimize information asymmetry. Hill (2020, pp. 60–62) notes that firms that are perceived to hide or withhold ESG information can face the consequences of being undervalued, creating direct financial incentives to leaders. Low ESG disclosure can also create reputational risks, acting as an indirect, but still significant pressure mechanism. ESG pressure can also be exercised as direct contact with the management.

Institutional stakeholders were studied by Barko et al. (2021, pp. 9–11) who examined institutional ESG-investment activism. This was mostly done via direct communication with companies from major institutional investors. Barko et al. (2021, pp. 28–31) found that, slightly surprisingly, the activism was most targeted at large firms with already high ESG scores. When contacting companies, softer demands, for example demanding transparency with ESG reporting were highly successful, whereas harder demands, such as larger operational overhauls, were not. Companies under financial pressure were highly likely to give in to the demands, while companies with poor ESG performance

usually ignored the suggestions and questions. The highest accounting metric to change after activism for the companies was the increase in sales, and successful engagement also generated significant positive stock returns, most notably in firms that were in the lowest ESG quartile.

Together these mechanisms form the channels through which ESG investor pressure moves from just being an external market force, to internal priorities of the executives and their daily strategies. Understanding these channels is essential before examining how individual leaders interpret and filter these pressures through both their own values and beliefs. This then reflected in their response, or lack of response, to these demands. The individual decision-making strategies are addressed in next sections through Upper Echelons theory and strategic decision-making frameworks.

2.3 Strategic leadership in MNCs

This shift toward managing relationships with these stakeholders introduces a new layer of operational complexity to MNCs. As a result, more traditional operational routines may no longer be sufficient and a more strategic, long-term approach is likely needed to balance a wide array of demands that might pull from multiple directions.

A strategic plan serves as a long-term framework, typically spanning three to five years, or more. For a long-term plan to be effective, it has to be operationalized through short-term objectives and daily activities that align with the company's broader vision (Frankl, 2015, pp. 94–95). Strategic leadership is a driving force of this alignment. It broadens the idea of focusing only on the short-term, constantly evaluating if the day-to-day decisions fit the long-term strategy (Stowell & Mead, 2016, pp. 3–4).

Research by Liu et al. (2025, pp. 167–168) indicates that the success of this strategic adaptation, particularly regarding ESG objectives, is fundamentally influenced by executive cognitive characteristics. Executive compensation incentives such as equity-based rewards and central motivators can significantly impact ESG performance, which

suggests that companies should integrate sustainability contributions into compensation frameworks to forward growth. Nevertheless, this correlation is subject to external constraints, specifically, local fiscal intervention, which exerts a negative moderating effect.

2.3.1 Agency problem

However, the theoretical ideal of aligning short-term goals with long-term strategic goals is often hindered by internal conflicts. One of them relevant to this study, is described as agency cost theory. While the long-term goals of companies increasingly prioritize sustainability to attract customers and ESG investors, the immediate interest of managers might not be aligned with the same goals.

The agency cost theory was first identified by Jensen and Meckling (1976). They first defined the agency relationship as an agreement where one or more principals (owners) delegate decision-making to an agent (the manager). Because the manager will likely seek his own best interest, their decisions might not always be optimal for the principal or for the organization's long-term goals, leading to an agency problem. Agency cost fundamentally describes the calculation of the total expense of managing the principals' and agents' relationship. These costs are the sum of the principals' monitoring expenses, the agents' bonding expenses, and the loss caused by the difference between the agents' decisions and the optimal decisions for the principal (Jensen & Meckling, 1976, pp. 5–6).

In the context of ESG, research by Xu et al. (2025, pp. 5–6), confirmed that in China, the high agency costs negatively moderate the relationship between ESG ratings and corporate performance. The financial benefits of ESG ratings were significantly lower in firms with high agency costs. A similar study done in the US by Cheng et al. (2014, pp. 16–17) found that in the US market, the positive connection between ESG scores and performance was mediated more by the institutional investor pressure than by internal agency factors. Together, these findings illustrate that while the drivers differ by region, misaligned incentives and agency costs remain as a barrier to realizing ESG value.

Furthermore, the composition of a firm's ownership, does also play a role in mitigating agency issues. A literature review by Velte (2020, p. 300) covering 81 empirical studies, found a positive relationship between institutional ownership (IO) and ESG performance. Long-term IO does increase ESG performance, and a higher ESG performance does attract a higher ratio of institutional investors. This dynamic is particularly pronounced in Europe due to the tightening regulations. As institutional owners increasingly drive in ESG KPIs alongside more traditional financial metrics, their long-term orientation may help better align investor and managerial incentives, thereby contributing to the mitigation of agency conflict.

This distinction is essential, because the pressure applied by different institutional investors is not uniform, and it varies based on their investment horizons. Empirical evidence by Park and Jang (2021, pp. 18–19) shows that long-term investors such as pension funds and insurance companies prioritize shareholder rights, risk management and CEO reputation. In contrast, investors with shorter horizons, drive decision-making towards marketability, prioritizing customer satisfaction and eco-friendly product strategies.

To mitigate the risks, firms often try to align interest through incentives, such as tying compensation to stock price. However, over-reliance on performance-based incentives can expose managers to too high personal risk, potentially causing them to avoid value-creating but risky decisions, or in the worst case to even work against desired outcomes with the fear of losing their compensation in the event of failure (Berk et al., 2020, p. 42). A recent study by Badawi and Barlett (2025, p. 15) presents a conflicting picture regarding ESG-linked compensation in SP&500 companies. While viewed positively by investors and stakeholders, its effectiveness is questioned. Their research showed that ESG goals were often vague goals, rather than measurable goals and actual impact. The ESG-tied compensation also often amounted to only small percentage of the pay. This

raised concern about having the bonus systems just as mere greenwashing, rather than being metrics and factors that actually affect the firm's performance.

In summary, good ESG performance can be seen as a direct signal of high-quality management committed to long-term goals and indicating low agency costs. While incorporating ESG metrics into executive decision-making could work as a modern incentive, which reinforces a well-functioning and low-cost agency relationship, its effectiveness is not guaranteed. As research suggests, if these incentives are designed poorly, the impact on the actual strategic change might be insignificant.

2.3.2 Upper Echelons theory

Since agency incentives alone cannot explain all strategic outcomes, it is necessary to examine decision-making through Upper Echelons theory. Managerial decision-making is rarely purely rational, instead, it operates within the limits of bounded rationality. Decisions are inevitably influenced by the manager's own ideas, biases and cognitive base (Aharoni et al., 2011, p. 137).

The first proposal of this theory was made by Hambrick and Mason (1984) who stated that the different strategic choices and outcomes of the organization are tied to the characteristics and background of the managers. Executives cannot look at every situation rationally, but they develop a personal filter through which they view different situations and make decisions. It is argued that, because of this, a company's strategy and performance could partially be predicted using measurable indicators of the managers, such as their age, level of education and occupation (Hambrick & Mason, 1984, pp. 193–196).

However, later research emphasizes that these demographic indicators may simply be substitutes for other deeper psychological drivers and for how other conditions and mechanisms shape decisions. In an update to the theory (Hambrick, 2007, pp. 334–339) clarified that executive influence depends on how much freedom the decision-makers

actually have, how pressured or complex their roles are, and how power and dynamics within the top management team shape their individual decision-making.

For this thesis, upper echelons theory was chosen as it explains why different leaders may respond differently to same kind of demands or questions. Managerial perception is also one of the key causes to determine which stakeholders hold a higher salience and which not, and is therefore central in understanding why different responses are given to similar ESG investor pressures.

2.3.3 Decision-making phases

To understand how different ESG pressures then translate into corporate action, it is needed to examine the decision-making process and its stages. Decision-making is a sequential process, and the framework used in this thesis is based on the foundational work of Herbert Simon (1960, pp. 3–4) who represented three distinct phases: intelligence (searching for information), design (developing courses of action), and choice (selecting an action). While this framework was established over six decades ago, it remains as the standard framework for analyzing strategic decisions.

The intelligence phase involves the scanning of the environment for conditions that call for a decision. Aharoni et al. (2011, p. 137) argue that decision-making is often not initiated without an outside force that triggers the process. In the context of the thesis, ESG investors and regulatory bodies act as that initiating force for leaders to identify sustainability issues as critical strategic risks. They pressure the leaders to scan for ESG data and consider their requirements. However, this identification is not automatic. As a recent study by Wang et al. (2022, pp. 9–11) suggests, without an individual manager's internal ESG perception, external signals might be ignored or fail to trigger a wanted response. This is one of the critical phases of the decision-making process in which ESG investors have an impact.

In the design phase, the managerial courses of action are built. In this phase managers often accumulate psychological commitments, and the abandonment of the project becomes increasingly challenging (Aharoni et al., 2011, p. 137). At this point, the agency problem becomes apparent, as managers might design solutions that satisfy the outside forces, while still protecting their own position and short-term profits.

Furthermore, even when leaders possess a strong personal drive for sustainability efforts, Hu (2023, pp. 9–11) notes that it only translates into greener innovation inside the company, when the company does not face financial constraints. This suggests that even a manager's high internal commitment to ESG is often challenged by insufficient capital or the lack of incentives.

Finally, the leader selects an action. In this decisive phase, psychological factors might override pure data. As highlighted by Aharoni et al. (2011, p. 136) the way the decision is framed does significantly affect the function that a decision maker expects. In practice, the outcome can depend on the leader's strategic "reference point." If an ESG initiative is framed as a potential loss the leader is very likely to show risk-averse behavior. Alternatively, if the same initiative is framed as a potential gain, it will potentially drive a more proactive and risk-tolerant commitment from leaders.

2.3.4 Ambidextrous leadership

O'Reilly and Tushman (2021, p. ix) define organizational ambidexterity as the ability to maximize profits, while at the same time searching and innovating new ideas and business models. In the ESG context, this is visible in a way where Leaders are expected to allocate resources towards more sustainable business models, without abandoning the traditional and safer revenue streams. In the sustainability landscape and leadership, green ambidextrous leadership has been shown to enhance green innovation and improve overall sustainable performance. It enables firms to balance the conflicting pressures of cost-efficiency and environmental compliance (Nguyen-Van et al., 2025, p. 19).

2.4 Summary and theoretical framework

This section concludes the theoretical concepts discussed and researched in the earlier literature review. The existing knowledge, as well as the research gap that this thesis aims to address, is summarized into a theoretical framework that supports the study. The framework attempts to explain how the pressure formed by ESG investing originates as an external force and then travels through individual executives and organizational mechanisms, before turning into strategic action.

The first stage of the framework concerns ESG investor pressure. The literature started by stating that sustainable investing has changed from ethical exclusions to data-driven metrics called ESG investing (Hill, 2020, p. 13; Townsend, 2020, pp. 1–2). Townsend (2020, pp. 6–10) mentions that the investor demand for ESG is believed to be driven mostly by fiduciary duty, the growing awareness of climate change, and the governance failures revealed by the 2008 subprime mortgage crisis. Furthermore, the pressure is typically channeled through financial intermediaries which lower both inefficiency and information asymmetry between investors and companies. The role of these intermediaries as a direct channel of managerial pressure is well documented, and the use of institutional investors pressuring companies through direct contact has been shown to have a high success rate depending on the issue area (Barko et al., 2021, pp. 9–11, 28–31; Hill, 2020, pp. 59–60). The United Nations has further reinforced the dynamic by integrating ESG issues into decision-making to be an essential requirement for institutional investors (UNEP, 2005, p. 6). This investor pressure forms the external force that executives are expected to perceive and often respond to.

The second stage concerns how executives then perceive this ESG investor pressure. Stakeholder theory works as the foundation for this, with Edward Freeman (1984, p. vi) defining stakeholders as a group or individual affecting corporations' purpose, with the updated framework by Freeman (2007) identifying financiers/investors in the primary stakeholder tier. However, not all stakeholders are perceived equally. Mitchell et al.

(1997) introduced the stakeholder salience model, which expresses that the greater the number of the three attributes (power, legitimacy, and urgency) possessed by a stakeholder, the greater their salience to management. As ESG investors have progressively accumulated all three attributes, their salience in executive decision-making has grown accordingly. Yet high salience alone does not guarantee a response. Research shows that external ESG signals can often be ignored without the managers' individual ESG perception. On top of the manager's individual perception, the company's financial constraints also impact whether the pressure is acted upon (Hu, 2023, pp. 9–11; Wang et al., 2022, pp. 9–11). Stakeholder salience therefore explains how investors gain influence, but it does not fully explain how executives internalize, process, and operationalize that pressure.

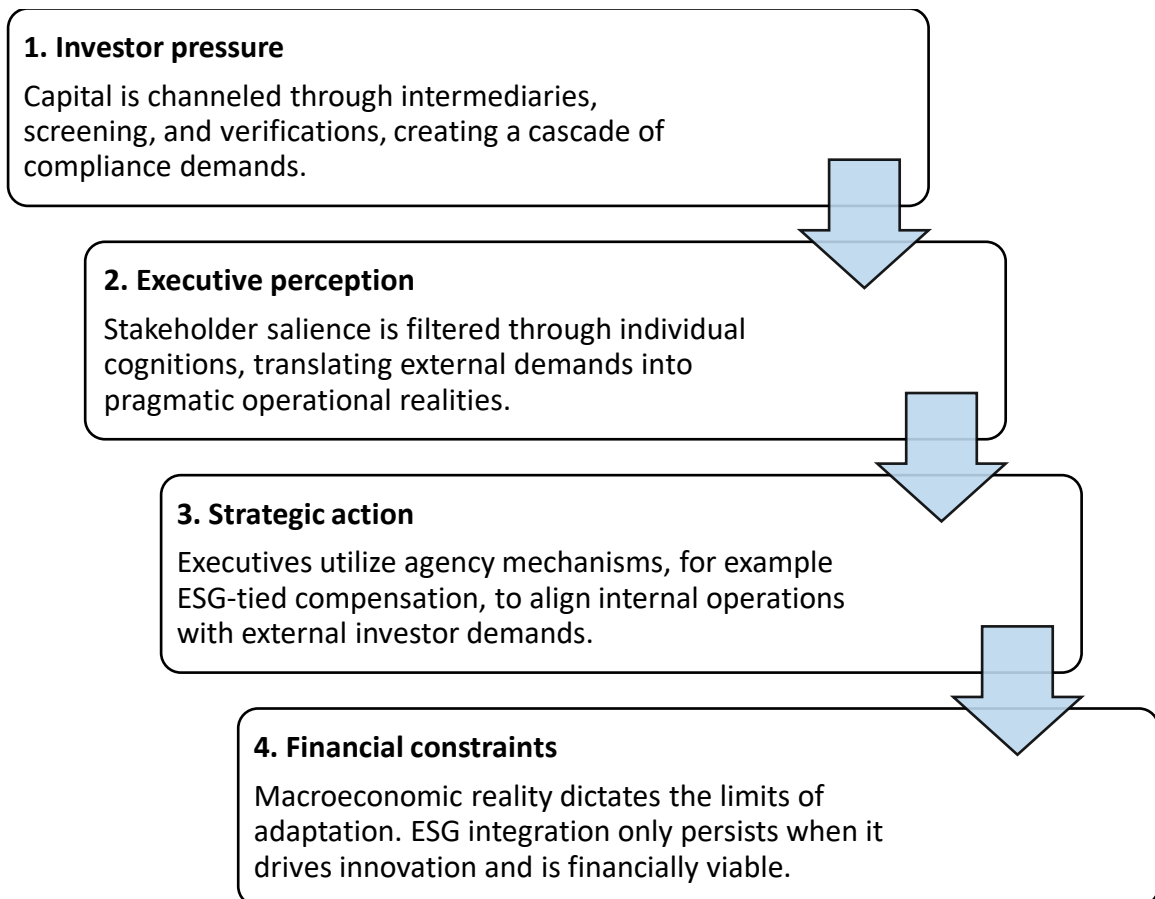
The third stage of the framework concerns how executives frame the ESG pressure once it is perceived. Herbert Simon (1960) established that decision-making follows three phases: intelligence, design, and choice. This decision-making process is often initiated by an outside force, which triggers the process. How that trigger is framed, relative to the individual's reference points, can shape the outcome (Aharoni et al., 2011, pp. 136–137). The same investor demand therefore can be interpreted as either an opportunity or an unwanted limitation depending on the individual. Upper echelons theory, established by Hambrick and Mason (1984) validates this dimension, by proposing that individual managers decisions are partially predicted based on their personal characteristics, such as age, education, and occupation of said managers or the complexity and freedom of their role (Hambrick, 2007, pp. 334–339; Hambrick & Mason, 1984, pp. 193–196). Together this suggests that strategic framing is neither objective nor purely rational as it is filtered through the manager's own personal beliefs and ideas (Aharoni et al., 2011, p. 137). In more extreme cases of other dominant personality traits, research shows that these CEOs' individual traits and tendencies can also lead to strategies that promote greenwashing to achieve short-term performance (Abdullah et al., 2025, p. 11).

The fourth stage of the framework focuses on how strategic framing is translated into practical leadership actions. Strategic leadership, defined as a leadership style that focuses on the long-term objectives and company's broader vision, operationalized through short-term objectives, offers the bridge between perception and execution (Frankl, 2015, pp. 94–95; Stowell & Mead, 2016, pp. 3–4). For MNCs specifically, the external pressure is also reinforced by changing regulatory environments which differs widely across borders. Reporting frameworks such as the CSRD in Europe and SEC climate disclosure rules in the United States create another complexity for ESG-related decisions (Esty & Cort, 2020, pp. 162–163; KPMG, 2023, pp. 4–10; Sullivan & Cromwell LLP, 2024). Agency theory provides the mechanisms designed to align executive behavior with investor expectations, most notably tying ESG performance to executive compensation and bonuses (Berk et al., 2020, p. 42; Hill, 2020, pp. 29–30). While tying ESG scores to executive compensation can impact ESG performance of the company positively, the results have also been found to vary between areas and ownership styles. For example, in the US, the connection between ESG scores and performance was more mediated by institutional investor pressure than pure agency costs (Cheng et al., 2014, pp. 16–17; Xu et al., 2025, pp. 5–6). Green ambidextrous leadership, where a company is maximizing profits while simultaneously searching for new and innovative ideas regarding sustainability, has been shown to have positive effects on the sustainability performance of the company, suggesting it represents a relevant leadership orientation for executives navigating both ESG and financial demands (Nguyen-Van et al., 2025, p. 19).

The fifth and the final stage of the framework is not an individual action but a condition that often moderates all the previous stages. Research consistently identifies financial constraints as the primary determinant of how ESG pressure is ultimately acted on, regardless of how the ESG issue has been framed or what mechanisms are in place to incentivize the action (Hu, 2023, pp. 9–11; Wang et al., 2022, pp. 9–11). The limitations of different incentives are backed by research, which noted that too high reliance on performance-based incentives can also lead to managers avoiding risk-taking, to prevent

personal financial loss, potentially working against the very desired outcomes (Badawi & Bartlett, 2025, p. 15). The actual change that ESG incentives can have is also challenged, with the ESG goals often being too vague to be truly effective and the ESG-tied compensation being too small to actually make a difference (Berk et al., 2020, pp. 41–42). Although each of the frameworks presented in this section has its own influence, by combining them a better understanding of how ESG investor pressure eventually shapes executive decision-making is formed. This combined approach provides the basis for the following empirical analysis.

Figure 3. Theoretical framework.



3 Methodology

The following chapter outlines the methodological framework of this study. It begins with an examination of research philosophy, on which the research process is based. It then shifts to explaining the chosen abductive research approach and the qualitative methods employed. Furthermore, in the research methods section, the processes for data collection and the application of thematic analysis are explained in more detail. Finally, the measures taken to ensure research quality and ethical standards are presented.

3.1 Research philosophy

The development of new knowledge is fundamentally tied to the researcher's perspective. Research philosophy in its entirety is framed as the worldview within which the research is conducted. Researchers hold their own beliefs and assumptions that can affect the outcome of a study, and it is therefore essential to acknowledge these biases to hold academic rigor. By practicing reflexivity, the critical examination of one's own thought patterns, researchers can better define the philosophical assumptions guiding their work. This framework is based on three primary pillars of assumption: ontological, epistemological, and axiological (Saunders et al., 2023, p. 131).

Saunders et al. (2023, pp. 133–135) assert that ontology dictates how one views one's research objectives. It is the researcher's perception of reality. Epistemology concerns the nature of knowledge itself, and it tells what data is valid or acceptable and what are the mechanisms through which this is communicated. Lastly, axiology acknowledges the role of values and ethics in the research process. As different values are central to human behavior and influence every stage of a study, it is central to be transparent and explain in the research process why and how different methodological choices and interpretations are made.

Saunders et al. (2023, pp. 135–137) categorize these philosophical assumptions into two contrasting perspectives: objectivism and subjectivism. Objectivism suggests that social reality is external and independent of the people within it, and it can be measured strictly through objective facts. Subjectivism, on the other hand, suggests that reality is a social construct which is formed by the different experiences and interactions of different individuals. For subjectivist researchers, the goal is to explore and understand these multiple, shifting realities rather than seeking a universal truth.

This thesis adopts a subjectivist stance regarding the three foundational assumptions of research philosophy. Firstly, the thesis is ontologically subjective. As the research focuses on MNC leaders and how they navigate ESG investor pressure, it assumes that organizational reality is not external and objective but rather socially constructed. As established in upper echelons theory, the “reality” of the regulatory environment is not fixed, but rather a perception filtered through the stakeholders and the leaders' own experiences, cognitive biases and values. Secondly, the thesis is epistemologically subjective. This study assumes that suitable knowledge is not derived from quantitative metrics, but from the subjective narratives of the MNC leaders. Thirdly, the thesis is axiologically subjective. This means acknowledging that the author is value-bound, and the interpretation of data is influenced by his own understanding of both sustainability and corporate governance. Given this subjectivity, transparency in the methods is needed to ensure credibility. It needs to be demonstrated how findings and methodological choices are analytically derived from the theoretical frameworks rather than from personal opinions.

Reflecting on these positions, the thesis aligns with the interpretivist philosophy. As noted by Saunders et al. (2023, p. 147), interpretivist philosophy is appropriate for business and management research that seeks to understand the more complex world of organizational management, rather than searching for universal laws.

3.2 Research approach

Choosing a suitable research approach is essential to ensure that methodological techniques and consistency align with research objectives, while navigating and adapting to practical constraints and limitations (Saunders et al., 2023, p. 159). The choice of analytical method depends on the study, time constraints and the researcher's tolerance for uncertainty of the final answers. The most important thing is that it provides the information necessary, with some degree of flexibility (Easterby-Smith, 2021, p. 267; Saunders et al., 2023, p. 159).

Three main types of research approaches are inductive, deductive, and abductive approaches (Saunders et al., 2023, p. 159). For this thesis, the abductive research approach is chosen. The abductive approach links observations with theory to generate plausible explanations. It allows for the exploration of phenomena through existing theoretical frameworks. Rather than strictly verifying a hypothesis (deduction) or building theory from scratch (induction), abduction integrates established concepts to refine and build upon existing theories based on empirical findings (Easterby-Smith, 2021, p. 267; Saunders et al., 2023, p. 155). In abductive reasoning, the researcher must be open to the possibility that the data gathered might be unexpected, and existing theories might not always fully account for it. The abductive process needs constant dialogue between already available theoretical frameworks, the data gathered and the pre-understanding of the researcher (Bell et al., 2022, pp. 124–125).

3.3 Research method

The thesis uses a qualitative research design. As Saunders et al. (2023, p. 185) note, a qualitative approach derives meaning from words rather than analyzing numerical data. Findings from qualitative data can have multiple or unclear interpretations, so it is important to clarify these during the interview phase. For successful research, the researcher must gain "cognitive access", defined as building sufficient trust with the participants, to allow them to share their genuine responses to the questions.

This research is structured as a mono-method qualitative study, employing semi-structured interviews as the selected data collection tool. According to Saunders et al. (2023, p. 185), this classification applies to a qualitative study design that uses a single data collection technique paired with a chosen data analyzing technique.

Patton (2015, pp. 522–523) notes that when conducting a qualitative study, themes and patterns start forming already during the data collection phase. If the researcher remains open-minded and receptive to natural insights, they can begin to identify aspects that would otherwise be overlooked if they waited until the full raw data had been collected. Consequently, too much analysis during the data collection phase can suppress the natural openness of qualitative study.

3.4 Data collection

The following sections focus on the techniques used to collect data. Qualitative research methods were selected because they allow for in-depth exploration of the topic, while still valuing different human experiences, respondents own voice and individuality. Rather than considering frequency or variance of a specific task, qualitative methods focus on the specific ways in which the task is done (Lincoln, 2021, pp. 3–6). To capture all the mechanisms, this thesis uses semi structured interviews as the method of data collection. This approach is suited to the problem because it enables an in-depth exploration of MNCs' channels and decision-making frameworks, while ensuring that the core research questions are systematically addressed.

3.4.1 Sampling

Qualitative research uses purposive sampling to find people with the desired characteristics for the study. The researcher seeks participants who are willing to take part in the study and who meet the researchers' set criteria. The number of participants should be such that the researcher has necessary resources to conduct the study (Lincoln, 2021, pp. 85, 86, 247).

The first selection criterion was that the interviewee's company is and MNC. The definition used for MNC, was that the company has capital assets and/or conducts business in one or more foreign countries (Shawnecey, 2023). The scope was then narrowed further to only include publicly listed corporations, as these companies are subject to formal ESG disclosure requirements and are held directly accountable to capital markets and institutional investors. This makes their ESG capital allocation processes more structured and more systematically comparable across firms.

A further criterion was that interviewees held a senior decision-making role within their organization or were included in internal investor communications. All participants represented a high level of organizational seniority, with titles including CEO, CFO, CSO-equivalent sustainability leadership positions, or Vice President of Investor Relations. The majority also bring extensive prior experience from senior leadership roles across operations, strategy, sustainability, finance, and investor relations in multinational and Nordic-listed companies. While the initial sampling criteria focused on C-suite executives, the criteria were broadened to also include senior investor relations professionals, such as Vice Presidents of Investor Relations, due to their direct contact with ESG-related investor demands. Within MNCs, investor relations professionals act as a first filter, prioritizing and analyzing incoming demands and then deciding what is communicated further up the organizational hierarchy. These selection criteria together ensure that the participants have the necessary knowledge to address the research questions.

Although geographic diversity across European MNCs was initially considered, the final sample consisted of Finnish companies only. Consistent with purposive sampling, participant selection was also subject to practical constraints, such as availability and willingness to participate within the designated data collection period of the study. Within these criteria the final sample size was five (5) participants. Following the withdrawal of one participant, a replacement could not be secured within the designated data collection timeframe.

The companies selected for the study ranged from mid-sized firms to large-cap MNCs. The industries in which they operate, include industrial machinery, manufacturing, consumer goods and sustainability solutions. All participants were actively involved in ESG-related decision-making or investor communications at the time of the interviews. Their experience in senior organizational roles ranges from 9 to 26 years.

A more detailed overview of the individual participants is not provided in this study. This was done at the request of the interviewees, as providing such details could make it possible to identify individual participants or companies, and compromise the confidentiality of the study.

Table 2. Lengths of the interviews.

Participant ID	Interview length (minutes)
P1	35:20
P2	58:59
P3	36:20
P4	38:44
P5	34:05

When recruiting participants, as anticipated, the primary barrier was the limited availability of senior executives, whose schedules within large organizations made access difficult. Outreach efforts yielded a low response rate, which was expected, but suitable participants were still found within a relatively short timeframe. Participants were reached via email and LinkedIn direct messages. Each message was individually tailored and shortly outlined the scope of the study. The messages noted that participation would be fully anonymous and a flexible interview schedule was offered. The messages were planned to be individualized, concise and straight to the point while remaining informative, in order to quickly capture the recipient's attention. The suggested interview duration was 30 minutes, recognizing that people in these positions have time

constraints, and offering a shorter interview time would make participation more viable. The relatively short recruitment period of around three weeks from first messages to interviews may suggest that the outreach messages resonated with the recipients, and that the scope of the topics holds relevance and appeal in the target group.

In total, 32 individualized interview requests were sent, of which nine received a response. Six recipients agreed to interview, while three requests were politely declined. The rest of the messages were ignored. One of the participants had to cancel due to work-related commitments, and given the thesis deadline, the study then proceeded with five participants ($n = 5$). As the sample is purposively selected and the study focuses on the in-depth understanding of the issue rather than statistical generalization, a smaller sample of participants is considered sufficient (Patton, 2015, p. 52).

A small sample size can be justified through data saturation, meaning that further data collection will not give additional information. In order for a researcher to acknowledge saturation, data collection and preliminary analysis of it must be happening simultaneously (Patton, 2015, p. 300). In this study, saturation was considered achieved even with the small sample size. The number of participants falls one participant short of the originally planned six to eight participants but is still considered sufficient. The diverse professional backgrounds and roles of the interviewees ensured that the questions were answered from multiple perspectives and recurring themes and viewpoints began to emerge across participants. The analysis and coding of the answers started immediately after each participant was interviewed.

3.4.2 Interviews

Patton (2015, p. 426) notes that interviewing is done to access other people's perspective and thoughts on a given subject to obtain information that cannot be achieved via only observing. This makes interviewing suitable for this study, as the aim is to understand how the ESG-related investor pressure is internally seen by the senior

leadership, and how it is channeled internally in the organization, as these are things that cannot be measured or observed through quantitative methods.

Patton (2015, pp. 427–428) highlights that the quality and amount of information reached from the interview is largely based on the work and skill of the interviewer. Key skills of an interviewer include being trustworthy and nonjudgmental. Other important skills are asking questions that are clear and open-ended, and guiding the interview in a way that is smooth, feels natural and is easy for the interviewee to follow and participate in. In this study, these principles were actively considered. The aim was to build rapport and guide the interview beyond rehearsed corporate answers, in order to encourage more real and personal responses.

The interview consisted of 15 open-ended questions, with few follow-up questions already written down. Question order was adapted to the flow of each conversation, as participants frequently addressed topics in a sequence that differed from the interview guide. To the author, this felt natural, and the flexibility and free flow of the discussion resulted in more in-depth answers. The questions were divided into four themes: background, stakeholders, decision-making and leadership. The summarized overview of the questions and the theories which they are based on, can be seen in the table below. The complete interview guide detailing the exact phrasing and follow up questions is provided in appendix 1.

Table 3. Summarized interview questions.

Theme	Theory	Questions
Background	(Hambrick & Mason, 1984; Hambrick, 2007)	1. Professional background 2. How has ESG conversation changed
Stakeholders	(Mitchell et al., 1997; Freeman, 2007; Barko et al., 2021; Hill, 2020)	3. Channels of ESG contact 4. ESG expectations versus operational goals 5. Conflicting stakeholder demands 6. Internal ESG channels

Decision-Making	(Simon, 1960; Aharoni et al., 2011; O'Reilly & Tushman, 2021; Nguyen-Van et al., 2025), and CSRD reporting standards	7. Short vs long term balance 8. CSRD on daily leadership 9. Performance targets versus ESG initiatives 10. ESG seen as risks, opportunities or obligations 11. Strategic framing
Leadership	(Jensen & Meckling, 1976; Berk et al., 2020; Frankl, 2015; Stowell & Mead, 2016)	12. Personal values 13. Organizational structure changes 14. Biggest challenges 15. Additional insights

The interviews were conducted via Microsoft Teams between 17.03.2026 and 02.04.2026. A flexible schedule was offered in order to help participation take place. Three interviews were conducted in English, with two held in Finnish, to ensure a better and more neutral flow of conversation. The interviews were automatically transcribed with the Microsoft Teams' transcription feature and afterward manually reviewed, corrected and anonymized so that companies or individuals could not be identified. Finnish texts were then translated into English, with the careful assistance of translating tools, to ensure that the original tone and voice of each participant was preserved. The use of AI tools is further explained in Appendix 2.

3.5 Data analysis

First, the data was prepared for the analysis by transcribing the texts. Saunders et al. (2023, p. 657) notes that while transcribing, it is important to not only type what is being said, but also how it is being said. This was done in the thesis by manually reviewing the audio and texts, and noting also pauses and other remarks.

The data analysis continues with a thematic analysis. Saunders et al. (2023, p. 664) outline that the purpose of thematic analysis is to find patterns or themes that appear in the chosen data-set, to further tie them into the original research questions. Thematic analysis is a logical and flexible way to analyze large amounts of data from different transcripts and notes. It identifies what themes need further research and draws and

verifies conclusions. However, it is important to bear in mind that the researchers' own assumptions will affect how the data is being interpreted.

Saunders et al. (2023, p. 665) divides thematic analysis to six phases: data familiarization, data coding, initial theme generation, theme development, theme refining and then writing of the report. Although thematic analysis is relatively structured process, it involves spending a lot of time going back and forth with the collected data to identify the right themes. This thesis adopts this approach, and follows the guidelines made by Saunders et al. (2023).

The process of familiarizing with the data began by taking notes and making observations during the interviews and continued with transcribing the texts thoroughly. Multiple rounds of re-reading were then carried out to gain a thorough understanding of the interviews. Saunders et al. (2023, p. 665) notes that familiarization is done through notes, transcription, and re-reading the data. This builds familiarity with the data and makes it easier to start coding.

The second phase is coding the data. Coding is important for finding data with similar meanings, as well as for rearranging and retrieving pieces of information from large data sets. At its most basic, coding involves labelling units of data with a piece of code that summarizes the data's information (Saunders et al., 2023, p. 666). The interviews were manually coded, and 54 initial codes were developed. As the research approach was abductive, data was not coded according to themes from the literature review but based on the findings from the interviews. Saunders et al. (2023, p. 671) notes that the number of codes is fully up to the researcher, but having too many can be a sign that the codes are too specific. The number of codes should always circle back to the research question and its aim.

NVivo 15 was used in the coding process, to help keep the interviews, quotes and codes in order. The 54 initial codes were then listed into one spreadsheet, and further analysis

continued with grouping them into themes. This started the third phase, which is the initial theme generation. Saunders et al. (2023, p. 671) explains that a theme is a larger category, which contains several codes which are relevant to one's research. Similar codes were combined, and codes sharing the same ideas were formed into themes. Four main themes were identified from the 54 initial codes, with 12 subthemes.

In the fourth and fifth phases, Saunders et al. (2023, p. 672) note that the themes should be refined and defined, to ensure that they are coherent, there is no overlap, nothing important has been ignored and the themes are meaningful for the research. In this study, refining was done, and a few of the themes and subthemes were further refined, organized and renamed. The number of themes and subthemes stayed the same in these phases, with four themes and twelve subthemes.

The sixth phase is the writing phase, where the found data is presented, preferably with direct quotes from the participants to illustrate the richness of the data achieved. The aim is to be objective and not to discuss these results in further context yet, but to let the participants and data speak for themselves. The data can be presented either based on the research objectives or by the themes, and it should be presented logically and clearly (Saunders et al., 2023, p. 730). In this research, the findings are presented in chapter 4, based on these suggestions, drawn from the four main themes, and then further divided into the twelve subthemes.

3.6 Credibility and quality

According to Patton (2015, p. 652), the credibility of qualitative research depends on four interconnected parts: the in-depth work of collecting high quality data, the credible and systematic analysis of the said data, the credibility of the researcher in terms of his experience, attention to detail and training, and finally the readers belief in the value of the research.

In this thesis, high-quality data collection was pursued through multiple intentional choices. The research topic was narrowed to ensure clarity and relevance of the research questions. The interviewees were selected based on purposeful sampling and in an attempt to reach good data saturation within the resources available. Semi-structured interviews were selected as the most suitable method, and the interviews were conducted with attention to interviewing technique, in order to reach detailed and rich responses.

The second element, credible and systematic analysis, was addressed through thematic analysis ensuring that the data was analyzed in a structured and transparent manner. The analytical process was started immediately following each interview to allow for preliminary analysis of the answers and to progressively find the most important topics and themes emerging from the data already during the interview processes.

The third element concerns the credibility of the researcher. The author has a personal interest in investing and ESG invested topics, as well as background of the topics and field through his studies. This background provides a good foundation for understanding the topic and allows the researcher to engage with the participants. Good familiarity with the subject matters also allows for deeper follow-up questions and a conversational tone during the interview. At the same time, care was also taken to remain as open as possible throughout the interviews, to avoid any potential bias from prior knowledge or assumptions. It is also to be noted that outside of the general topics, organizational and executive-level decision-making falls outside the author's direct experience. When necessary, clarifying questions were asked after the answers, to ensure a full and accurate understanding of the responses.

The fourth element, the reader's belief in the value of the research, is supported by the relevance and timeliness of the topic. ESG investors have reshaped capital markets and corporate governance in the last 10 years and ESG and sustainability issues are evident in everyday life. More ESG-focused funds and investment are offered to investors, and

the research into how companies handle this in their decision-making represents a less explored and interesting area.

3.7 Ethical considerations

Ethical guidelines outlined in the University of Vaasa's responsible thesis writing process were followed throughout this study (University of Vaasa, 2025). At the start of each interview, according to the guidelines, participants were informed of the purpose of the study, that participation was voluntary, their responses would remain fully anonymous, and any remaining personal data will be deleted after the acceptance of the thesis. Verbal consent was obtained from all participants, which was captured in the interview recording. All recordings and transcriptions were anonymized right after the interview, and then stored password protected and locally, on the author's computer.

4 Findings

This chapter presents the empirical findings of the study, derived from the semi-structured interviews with MNC leaders and investor relations professionals. The chapter is divided into four main themes drawn from the initial codes: stakeholder pressure and channels, information asymmetry and reporting challenges, strategic adaptations, and executive cognition. As presented in section 3.5, these four main themes are further divided into twelve subthemes. This chapter's findings are presented in the author's own words and supported by direct quotes from the participants.

4.1 Stakeholder pressure and channels

The first main theme looks at how external sustainability demands are passed on to the executives of multinational corporations. While the stakeholder salience model proposed by Mitchell et al. (1997) could be used to argue that ESG investors are definitive stakeholders possessing power, legitimacy, and urgency, the data reveals that the pressure is rarely uniform or that straightforward.

Rather than a linear stream of direct demands from a single source, MNC leaders experience ESG related pressures as a more complex, multi-channel phenomenon. The findings indicate that not only does the ESG discourse follow cyclical and macroeconomic cycles, but it is also often mediated through different institutional mechanisms, instead of pure direct dialogue. Furthermore, this pressure intensifies as it flows through the supply chain and customer base, with each group demanding different outcomes from their business partners. The following sections will start with the evolution of general ESG discourse and then move on to ESG investor engagement and the use of the executive remuneration as a governance mechanism and finally analyze the complexities of supply chain and customer cascade.

4.1.1 Evolution of ESG discourse

The findings suggest that ESG discourse has an uneven and cyclical trajectory. It is shaped by geopolitical developments, regulatory changes and macroeconomic cycles. The participants agree that the discourse has shifted in recent years, evolving from more voluntary ideological ambitions into a regulated business requirement. The cyclical nature was observed by the interviewees, who noted that even when ESG remains one of the structural priorities of the company, the intensity of its pressure fluctuates based on the global trends and crises. Participants noted that while the ESG discussion had already been present in the 2010s, the discussion has changed multiple times since then.

It's not a rise and fall, but when I started working on the equity market side full time in 2010, ESG already was there, but not as big. Obviously, it got very big, but during the last years the discourse has changed quite a lot overall. The way that markets are looking at it at the moment is very different from what it was like, I would say, in 2023.

Well, in my opinion, it's [ESG] changed in the sense that at first it was just this requirement, and nobody really cared. ... More concrete measures have only really started to take shape over the last 5 years. You can see that every company is investing in it.

The global trends were presented by the participants, noting how the different global crises and geopolitical changes affect how much different stakeholders hold interest in ESG discourse.

The topic was much more prominent before the COVID years and before these wars. In our industry, it's been evident in the sense that quite a few companies were investing quite heavily back then and made strong commitments to invest in things like electrification.

Interest in it has changed over the years, and there are always little dips for one reason or another. It could be geopolitical changes, and now there have been changes in EU legislation that have affected many companies. I think it'll even out. Right now, the war in the Middle East is taking some of the focus away from basic ESG issues. But in a way it's still always been a hot topic.

Several interviewees highlighted a recurring challenge regarding the regulatory approach during the peak of the ESG trend in the early 2020s. Participants felt that

regulatory requirements were over-engineered, driven more by ambition than operational practicality and due to this, multiple companies, customers, and investors overreacted.

Back then it was all for sustainability, assuming that all customers and consumers will be ready to pay anything. On the reporting side, there was a 'more is more' type of mindset, at least on the regulatory side. Which was, I would say, one of the biggest mistakes made in the field overall.

One of our challenges is that we as a company did a lot of early investments into sustainable products, anticipating that the legislation would go there.

4.1.2 Direct ESG investors

While the previous section outlined the general discussion regarding ESG discourse, this section examines how that translates into direct engagement. The findings indicate that the direct ESG investor contact is quite infrequent. However, the lack of contacts does not mean a complete absence of pressure. Rather, it shows a dynamic where ESG investor expectations have also been internalized by leaders and organizations, resulting in the proactive management of reporting, third-party validations, and ratings. The need for constant direct dialogue decreases, with these other measures taking place. Direct contacts are nevertheless visible, and the nature and intensity of them vary noticeably depending on the investor profile and the geographic origin.

When it comes to ESG investing, we very rarely have meetings with specific types of investors who have an ESG profile or ask only ESG-related questions. There are a few, such as ESG analysts. However, if we have 200 meetings a year, you can count them on one hand. ... Of course, many investors may have some ESG agenda. For example, pension funds have these ESG analysts.

The share of ESG-related questions has decreased during my four years quite a lot.

It was a few. It was a few questions a year.

As noted, the low frequency of direct ESG investor contact should not be counted as a full absence of pressure. For some MNCs the proactiveness, verifications, and the scale of ESG reporting are at a level, which eliminates the need for ESG investors to contact the companies.

You have to be proactive, because you know those expectations are there even if they don't necessarily call every day. We know that those ratings and certifications are really important, and that's why we also focus on them.

For a larger industrial company, the number of ESG-related questions was higher. In these cases, as the information available for investors was already quite high, the questions regarding ESG issues, were often quite specific. The company might have an ESG specialist to whom these questions were forwarded for answers, and to determine their relevance. One participant noted that slightly over 10% of investor contacts are ESG related.

We have investors or potential investors who contact us directly because they have an ESG topic that interests them particularly. Many investors use third-party ratings, like Ethifinance, Sustainalytics, MSCI, and others, to evaluate us. So, our communication with them is either that they receive those rating results, or that they contact us directly.

If they specify that it's ESG angle then we take on our ESG head to answer those detailed questions. ... [Executives] are not experts in all the details about Scope 3 calculations, and so on.

This indicates that while ESG factors are a critical underlying requirement for accessing capital, they do not dominate the direct, daily dialogue between MNCs and the capital markets. Investors seem to shape their decision based on the company's public strategy and reporting, combined with third party evaluations and metrics, and this way pressure the company to suit their portfolio.

A distinction between areas and countries could be made regarding which investors actively seek direct ESG engagement. Regions that arose into discussion as having more ESG-related questions were the Nordics and Central European countries. Furthermore, the varying levels of ESG maturity across different regions guide stakeholder operations and dictate how specific markets should be approached.

Early on we actually also had US funds which asked about ESG, and now we don't get any single questions on that basically, or very little. To have US funds which would come with an ESG-first agenda, that's not the case anymore at all.

Sweden in particular, but Norway as well, was light-years ahead in the circular economy and sustainability compared to Finland. In Finland, price, availability, and product quality still take precedence over sustainability issues.

4.1.3 Executive remuneration

Another channel through which investors exert pressure is executive remuneration, particularly the remuneration report. One participant remarked that with their company the ESG-focused investors and analysts tend to focus their questions and pressure on the remuneration report. He based this observation on the fact that their company might be difficult to compare to any other company in the industry in ESG terms, and thus the numerical data of the compensation report is easier to measure and compare, and the questions are aimed towards that.

So, these ESG themes are very much tied to this compensation report based on those ESG controllers or analysts. I don't know if it's because it's so easily quantifiable, but those questions are very much and often related to that.

4.1.4 Customer and supply chain cascade

The pressure was found to often be channeled indirectly from sources other than just financiers, via a chain reaction across their whole value chain, including also customers and supply chains. This way many MNCs may face this pressure from their clients' financiers, who enforce these requirements throughout the supply chain. One participant noted that distinct investor pressure towards their company can be hard to distinguish, or it is not apparent at all, as their company has sustainability as their main strategy and operations. The pressure for them is then received indirectly from the larger stakeholder chain, where it can be from customers, financiers, other stakeholders, or a combination of them.

I haven't yet recognized that investors are pressuring us, that pressure comes indirectly through comments, which then put pressure on our clients, and they demand it from us.

This interconnected pressure means that large B2B clients also drive ESG compliance, either because they have their own motives or because their investors require it. One participant noted this by saying: *“Big clients have started demanding things, Ikea is a*

good example of that.” The channel from where the pressure comes from is rarely a single investor demanding change: “All institutions are asking those [ESG] questions. Whether it’s funders, insurance companies, clients, their funders, or suppliers. So, it’s kind of becoming a chain reaction all the time.”

However, the findings revealed that the expectations of institutional investors do often clash with the organizational reality as well as the customer base. As an example, Investors may demand faster timelines for sustainability targets or projects, but companies remain constrained by what they can sell and what customers are willing to purchase. One participant illustrated this by referencing demand from ESG investors who were asking for full product circularity.

I tried to explain to them that we can get there fairly soon if our customers buy the stuff. But if they don't want to buy recyclable plastics, then, you know, there's not much we can do about it. I was like, well, you need to call all the larger companies in the world and ask them. I cannot give you a timeline when we don't know, when it's up to our customers. It's not up to us.

This shows the clash between operational reality and strategy, which will also be discussed later in section 4.3. While investors might expect fast paced transitions and investments, for the company it is still down to market demand and financials. One participant noted this customer angle by saying: *“Often, when a customer chooses an environmentally friendly product like this, there’s always a productivity factor or regulation behind it. It’s pretty rare for these customers to go straight for the ESG angle.”* Thus, the market seems to drive whether a certain ESG decision is being made or not. The balancing act of investors, and their demands, is far more complex and interconnected for the leaders than just deciding whether to implement their demands, or not.

4.2 Information asymmetry and reporting challenges

The second main theme of the findings addresses the operational friction and challenges that MNCs face when responding to ESG demands. The biggest clash in this section

appears to stem from the fact that, although institutional and individual investors require sustainability data in order to make informed decisions about where to allocate their funds, they lack visibility of the daily operations of MNCs. Financial markets most often try to bridge this ESG information gap via regulatory frameworks and ESG rating agencies. However, the interview data suggests that in attempting to address this information asymmetry, the ESG reporting ecosystem with its advisors, agencies and regulatory frameworks, can sometimes make the situation difficult for the companies because the external entities don't understand the true operations of the company. This translation of sustainability efforts into standardized metrics was seen problematic by multiple participants.

4.2.1 Advisor bottleneck, outsourcing and misaligned criteria

A recurring concern which was raised by participants was the quality and depth of understanding of their company, demonstrated by external ESG analysts and rating agencies. Participants described encounters with evaluators who, in their view, lacked the necessary knowledge of the company or industry in question, which resulted in their minds to inaccurate conclusions.

Let's say that because this industry isn't, unfortunately, a very important one, investment activities have been outsourced to operators who don't handle it the same way as, say, portfolio managers. ... So, there are quite a few of these different ESG analysis firms out there that put out reports, but who knows how well-informed they really are about everything in the end. It's possible that they're just applying general formulas to complex issues.

The same participant described a situation where an advisor had flagged their CEO's compensation as completely misaligned with the company's performance, purely because the analysis firm hadn't used the adjusted stock price following a corporate spin-off. Furthermore, the same company had been penalized in the rating for their governance structures, where the advisors had not considered their historical context.

So, for example, there might be a criterion that says our dual class share structure is automatically a negative factor. And you get a bad score based on that. ... It may be that there are downsides to it, but in our case, for example, implementing

structural changes would have been much more challenging if there hadn't been a cash-rich majority shareholder capable of exercising influence there.

Similar issues were raised by another participant who argued that investors often lack the knowledge to analyze and set realistic expectations regarding different ESG agendas.

Investors kind of do too much desk work without really understanding the company. They should get out into the field and understand the company but also understand the industry's dynamics and how that affects the customer base and the supplier base.

Investors don't really know the day-to-day reality. ... They don't necessarily realize what we can actually influence in the business world. If the requirements are too high, they won't be met. Industry knowledge and understanding of the possibilities and limitations should be much better.

Consequently, while the rating agencies are trying to guide companies towards better sustainability practices, can they create confusion and even skepticism within the MNC. If the ratings are fragmented and there is no proper transparency in the models, it is difficult for companies to know what they need to prioritize and how to actually improve.

And then there are the different ratings, they have different systems and evaluation methods and so on. And then some investors use multiple ratings: some have an external one, and then they've developed their own internal methodology for it, some just use their own.

There isn't the transparency that would also make things easier for us. If you think that the purpose of a rating is also to guide companies toward more responsible practices, then if there isn't that transparency, well, that's kind of a bit odd. ... Does this really drive development in the right direction?

4.2.2 Comparability

A second dimension of information asymmetry comes from the difficulty of comparing different ESG performance metrics between companies and industries. While different ESG frameworks have been designed to enable comparability, participants noted that a lot of inconsistencies are still apparent. The comparison of ESG metrics to financial metrics illustrates this mechanism well.

That [ESG] reporting hasn't been as exact a science as financial reporting. Even though we're at a good level, there are still a certain number of assumptions

underlying the calculation of emissions. It's very difficult to compare those between companies. And I don't know how transparent other companies are. ... A few years ago, it felt like there was quite a bit of greenwashing.

The lack of this “exact science” creates both operational and financial challenges, as the companies are competing from both investor and customer capital. If the methodologies are not universally standardized or measurable, companies can alter their results to seem more favorable. One participant highlighted his concerns in the context of competitive bidding.

Now, we do it quite accurately on the computer, as Finns often do. And then, this is of course hearsay, but the thing is that some competitors might do it a little differently, which isn't necessarily as scientifically sound as what's done by us with the computer. And that gives them an advantage in their bid. There are still such big differences in those emissions calculations.

Another participant said that even in the same industry, and similar product portfolio, comparing becomes difficult.

Even though we have one competitor with a portfolio that's about 50% similar, even if they could report at the same level of detail, it would still be really hard to compare them.

One participant offered a more moderate view, highlighting that in his opinion, companies within the same industries are comparable, while comparing companies across different industries starts being more difficult. To solve this lack of comparability, regulators have introduced different systems to classify and regulate the companies. One of the most problematic frameworks raised up in the interviews was the EU Taxonomy. Instead of clarifying the landscape, the interviewees argued that forcing different companies and industries into one single framework causes more problems than it solves. One participant described the complications of the taxonomy's "eligibility" and "alignment" criteria, with examples that their products and car companies are not treated the same, even within the same framework and similar products: *“But that doesn't make any sense. It doesn't reflect the potential. There are a lot of complications like that, which make comparing companies difficult.”*

Another participant was also critical of the idea of forcing this framework into every sector, being frustrated with the mismatch and the amount of ineffective work it creates.

But then there are ridiculous things like the EU taxonomy, which was the first thing coming out. And I guess it makes sense for like, you know, steel making or something, but forcing that on everyone is just ridiculous. ... And we still have these huge tables, basically saying 0000. Not because we haven't done any improvements, but just because of how those things are defined, so it's just a waste of time.

4.2.3 Regulatory uncertainty

Another driver of operational friction that emerged from the interviews was the volatile nature of ESG legislation in the European Union. The emergence speed of new regulations and the inconsistency of existing frameworks often led to frustration among participants. Ambitious sustainability frameworks were seen to be introduced first at a rapid pace, only to then be delayed, forgotten or scaled back causing operational problems and even financial losses for the companies.

Participants expressed frustration that ESG analysts and regulators often focus too narrowly on one angle, while they ignore larger operational trade-offs and the scale of the companies the regulation is for. For instance, one participant noted that while multiple stakeholders and regulations pressure companies to get rid of flexible plastic, the other alternatives to it, rigid plastics, metal, or glass, are significantly heavier and produce even higher CO₂ emissions during both production and logistics.

The challenge with some of them [ESG regulators] is that they come often with a certain type of angle. So, they can have a biodiversity angle, they can have a 'get rid of plastics' angle, or just a CO₂ emission angle. ... And many ESG people don't maybe see the big picture. The world it's not black or white, it's shades of gray.

The findings also indicate that the instability in legislation can cause harm to long-term sustainability investments of companies. If legislation is delayed, it can often financially penalize the companies which have been proactive and invested in green technology early on. One participant noted that a delay in the introduction of packaging regulations caused customers to switch back to cheaper, non-sustainable plastics after their launch

of an alternative more sustainable product. As one of the first to react to this change, they were financially punished for being early adopters of the regulation.

Early on it first got traction, but now with the impact of inflation and all our customers trying to cut down cost ... some customers even in Europe are now going back to plastics even though they know that by 2030 they still need to get rid of plastics, but they just consider that they need to cut costs for a few years. ... Being cynical you should just be always late to market and never take the risks on sustainability. In hindsight that would have been a better solution from a financial point of view unfortunately.

The issue with regulations changing was summarized by the quote: *"They want to speed run everything and then are not listening to the real world. And then after a while when they start being pressured, it's like, oh well, maybe we should get back. ... So, this back and forth is the worst."*

One of the most severe consequences of this regulatory whiplash is not just the frustration within the administration, but the slowing down of the sustainable development and investments in the whole industry. One participant straightforwardly explained how this dynamic can halt the industry, as its sometimes forcing companies to hold off on buying new, greener technology due to fearing the legislation going the other way that they are expecting.

Like if we buy new machines they're supposed to run for decades, and now having even a few years of going back and forth [with legislation], it's impossible. And what it really does, is that it freezes the industry. The people don't invest, and you actually don't get the improvements that the actual real world would need.

Interestingly, the data also reveals variance in how executives perceive the regulatory speed. One participant countered the notion, by emphasizing that by proactive internal monitoring, being first to react to the changes in the regulatory pipeline can be also used as a competitive advantage.

If an organization is constantly monitoring changes in legislation, they don't come too quickly. ... So, it needs to be part of the process to identify them.

We were in a fortunate situation because we had a good sustainability director who always kept us informed that these kinds of things were in the works. Should

we react now, or should we react when it becomes a reality, or should we only react once it's mandatory?

This suggests that the severity of the regulatory friction is dependent on the MNC's internal strategic adaptations and also the size and industry of the company. For a larger company, making or changing, for example large scope-3 calculations and reports within a short timeframe, is noticeably harder than for a smaller company. Regarding the scaling back of the regulations, one participant noted that for a large company, it is not really feasible to do that either.

For large companies like us who have already done a very rigorous job on implementing things, it would actually be easier to have that bigger scope of work and just maintain it and not change it. That would be easier than first going big and then scaling down.

So, if you say that well, we will scale back and change it a bit. It's again, we need to think about each and every reporting item. How, and where do we get it? Is it the same as previously? Or you know, can we trace it, can we track it, and so on.

4.2.4 Third-party verifications

As the mandatory regulations are unable to fully provide clear comparability across industries, the findings show that companies like to rely on voluntary verifications to show their commitment to sustainability issues. These verifications serve as a way for investors and other stakeholders to quickly assess sustainability commitment, removing inefficient questioning and further reducing information asymmetry. Executives utilize verifications as a competitive advantage but also as a way to manage and deflect repetitive stakeholder inquiries. The two most often mentioned verifications were EcoVadis and SBTi.

Yeah and then having a certification like EcoVadis helps with that, when it's there, those questions don't come up. I mean, I always see that if it's been externally verified and validated, there are way fewer questions.

Some investors check whether a company is SBTi-aligned or not. ... In a way, at least, the ones that have this, are seen as some kind of pioneer companies. It's a certain kind of stamp that says that we are compliant. So, in a way, this company is climate-conscious, and someone else has validated that.

4.3 Strategic adaptations

The third theme of empirical findings explores how MNCs and their leaders internally adapt to the external pressures as well as to reporting frictions. The data reveals that simply reacting to investor demands or regulatory mandates is not sufficient to survive in the long term. Instead of treating sustainability as a compliance that needs to be exercised only when asked, in today's market, sustainability needs to be operationalized in a proactive manner. The findings indicate that this ESG proactiveness can be used to differentiate in the market. Ultimately, even if sustainability is embedded in the core organizational structure, eventually it all needs to be balanced with financial realities.

4.3.1 From compliance to competitive advantage

A central finding across participants was that companies who are strategically structured towards sustainability do not treat ESG as an external obligation, but as a way to differentiate themselves in the market and as a way to gather a long-term competitive advantage. However, it was evident that the impact on profitability varies depending on the industry and company.

It depends on the industry. In the circular economy sector, it's an opportunity, it's how you differentiate yourself. But then in some sectors, like the base metals industry, if it's energy-intensive, it can also be a risk.

For example, with the big investment in Nordics, we debated many times whether it was really worth doing, and we always came to the conclusion that if it makes us significantly better in that market, then it's worth doing.

Another participant also saw the market demanding more sustainability as a market signal that rewards the people who act on it first. He stated that in countries which regulate specific sustainability towards their products, such as the Netherlands and USA, they have managed to be on the frontline of the change: *"We welcome market regulation, which in a way drives that development forward, because we see ourselves as pioneers in this industry."* Proactivity was most evident in companies where sustainability was built into the core strategy of the company. These companies tried to

act internally, before external demands were built up. Interestingly, one participant stated that from his point of view, the strategic framing of sustainability issues in Finland is often being done too late.

In most companies in Finland that aren't aware of this [ESG issues], external pressure always comes first, and only then does internal pressure follow.

When we were developing the strategy, that's when we made this [ESG] one of our cornerstones, and we built it piece by piece so that we'd be ready for when the world changes. We started internally, and then it came from the customers, and then all kinds of questions from these financiers, banks, insurance companies, and so on.

Strategic ESG investments were often found to be driven by the goals of outperforming competition or catching a share of the market that others don't have. The implementation of ESG-related investments often possesses a high financial risk and is rarely being made purely because of single line of external pressure. While investors and financiers do hold the keys to capital, there are calculations of the risk to reward ratio done between multiple different stakeholders.

Usually, it comes down to the euros. So, if the pressure comes from the customer base, you look at whether it's a significant customer and if it's worth doing. And even if it's not a significant customer, but they have a good reputation that we can ride on, then we usually invest in it. The euro is the best consultant there, or if it's written into the company's values.

One participant argued that the ESG strategy should be well-grounded and thoroughly considered, rather than trying to appeal to every investor, customer or regulatory body. The commitment has to be early, but with clear materiality focus and ability to connect the ESG related investments into market advantages. If the work is fragmented and reactive to single external pressures, there is a high risk of consuming resources without generating profitable or strategic value. Multiple participants emphasized an early and well-done materiality analysis.

My personal view is that it's more about focusing on the few key points that actually make a difference, like emissions, like water usage, rather than trying to grab the whole world on each and every small detail. Companies cannot put millions and millions into each and every small topic if it's not material.

It's clear here that we're heading in the right direction, and in my opinion, the most important thing is that we focus on what's essential. What is the most essential thing for the company that needs to be promoted and developed? And in my opinion, that's still kind of in its infancy [in Finland]. ... And that's where the materiality analysis is done, or the stakeholder analysis, which is part of that materiality analysis. So, through that we learn what is most important for this company.

Many ESG issues also pose a financial risk. ... But there's also the opportunity, because it's been recognized quite strongly that responsible products and services help build a company's resilience in the long term.

4.3.2 Structural integration

The reaction to ESG-related demands, questions and legislation, also needs organizational structure which can answer to it. This was already present in section 4.1.1 which highlighted that companies have hired experts responsible for answering ESG-related questions and for framing their importance.

The participants emphasized that due to the amount of ESG related issues, sustainability can no longer function individually, but rather it needs to be redesigned internally into the organizational structures. Participants stated that to achieve true ESG alignment, for example HR and finance had been brought closer to ESG operations. This is done to show both the top and bottom of the organizational hierarchy, that sustainability is one of the company's main operations, and not an individual operation. The role of ownership and top-level leadership in driving structural integration was highlighted by participant, who described how the values of majority shareholders shape internal ESG priorities.

The company owners have a large stake in the company, and for them, personal responsibility is very important. So even outside of our company, they're doing good work to promote it, and that certainly influences how things are carried forward within our organization. It comes right from the top, the majority owners, through the board, who then filter it down throughout the entire organization.

When internal commitment from leadership and owners is present, the participants felt that the whole organization then understands the issue much better: *"My feeling is that this is the first time I don't have to internally sell the idea of sustainability. So, I can focus*

on my own work and development, rather than having to convince my colleagues that we should invest in this."

Secondly, companies operationalize structural changes by internalizing the fiduciary lever discussed in section 4.1.3. To answer external pressure regarding accountability, MNCs are often designing and using ESG-tied incentive metrics. It was highlighted by every participant that these incentives need to be strict and measurable in order to achieve results. They also need to be implemented in a way that the individuals affected, can actually impact the KPIs measured.

Everyone who has the short-term incentive program also has sustainability and safety targets in there. ... It's been there for a long time, and it does impact. It's not the biggest by any means, but it is there, and you're reminded of it when they review your bonuses.

The standards have to be set high enough that they actually make a difference. And there has to be a real opportunity for the individual to influence it, you shouldn't have KPIs that can't be influenced.

4.3.3 Financial reality

Despite the proactive structural changes and pursuit of achieving competitive advantage, corporate sustainability and the firm's ability to answer to demands, is ultimately constrained by financial reality. A visible theme was the tension between long-term sustainability investments and short-term financial pressure.

If the bottom line starts to shrink, meaning revenue isn't coming in enough, then it [sustainability] cuts back. This pressure means you have to give something up, and usually that means development or things that don't generate financial returns in the short term. ... For example, we have had to abandon investments related to carbon neutrality over time.

One example of financial pressure arising from ESG exclusion criteria was raised by a participant. Defense logistics were seen as negative by certain ESG investors and strict thresholds were established around them. This situation was discussed internally and no conflict was identified. Ultimately, the pressure dissolved due to external geopolitical events.

Some ESG investors had criteria stating that the share of defense logistics in revenue could not exceed 10 percent, or else you'd be removed from the portfolio. For us, it's around half of that. Well, that discussion ended after this war started. Maybe some still have those criteria, but they kind of disappeared.

This example illustrates how some ESG exclusion criteria can create pressure that is disconnected from the operational reality of the company. It also demonstrates how different ESG agendas themselves are subject to broader geopolitical forces. In this case, one criterion became basically irrelevant almost overnight.

Proactiveness and loyalty to the company's core values at executive level is essential to not let financial considerations completely override organizational sustainability goals. One participant noted that financial performance still frequently rules the boardroom discussion, and ESG issues are still often kept as a side point to the conversation.

These are often treated a bit like separate issues. The company's financial figures often take precedence over these more ideological or operational matters. And then the focus is just on the finances, and these [ESG issues] get forgotten. So that requires pretty systematic action from the organization and the CEO.

As quoted previously in section 4.3.1, the quote: "The euro is the best consultant there." remained prominent in basically all of the discussions. Companies are trying to make profit. The balancing act of having enough sustainability to attract investors and customers, and obey the regulations, but not to harm the short-term financials too much, requires highly proactive management. The most resilient ESG strategies appear to be those that are rooted deeply enough in company values, ownership and structure to withstand the possible financial headwinds, rather than those that depend on stable conditions and reactivity. Strategic adaptation is not a linear progression towards a perfect sustainability score, but a continuous balancing act which is dictated by the strategy, leadership priorities and the financial health of the organization.

4.4 Executive cognition

The fourth and final theme of the empirical findings shifts the focus from external frameworks and structures into the individual decision-makers. The way in which managers perceive, interpret and internalize the demands, acts as the last filter through which strategic adaptations are then formed.

4.4.1 Cognitive filters

Upper echelons theory proposes that information is processed through cognitive filters set by background, education and accumulated knowledge. The participants in this study were a diverse group of professionals from a range of different backgrounds. One interesting example was that two participants with backgrounds in banking and equity markets showed a particularly analytical view of the different ESG metrics and external evaluators. They were not against sustainability issues, but they criticized the uncertainty and comparability of them and, for example, critically assessed the practical value of regulatory frameworks. This could be tied to their background in financial matters, where results and numbers were more easily quantified.

One participant with over 25 years of experience across different industries had generated a more high-systems level perspective of ESG. He stressed the materiality, operational feasibility and strategic prioritization. He emphasized that leaders, the true experts of their own field, need to be able to filter out pressure that is disconnected from the actual limitations of the company, while still acknowledging them.

Moving from cognitive filters to more operational filters, executives sometimes felt like their job is to educate stakeholders to understand their company. This was not directed solely towards investors and customers, but also frequently towards the board. One participant described the friction with an arbitrary carbon-neutrality timeline offered by the board: *"They just gave a year without understanding what that year actually meant."* This example highlights how values and strategic misalignment at the board level can

create an internal barrier to ESG progress. In these cases, executives need to transform complex organizational issues involving multiple stakeholders and stages into understandable, tangible topics for the board members. This way, the board also understand that: *"It might actually make sense for the company as well, to have [ESG] things in order."*

4.4.2 Value alignment and leadership conflict

When asked whether their personal values had ever conflicted with decision-making, the participants generally showed strong personal alignment with their decisions and corporate sustainability. For some, the lack of conflicts was attributed to their organizational strategy.

In that sense, this has been a pioneering company, and in that sense, it's been easier. Though if you were in a different industry or a different kind of company, it might be quite different. And I'm sure there would have been those kinds of conflicting situations.

In this study, the findings indicate that when morally difficult conflicts do arise in decision-making, they are rarely framed as ethical dilemmas. Strategic friction with the board was apparent in a few cases, driven by the board not understanding daily operations or the importance of ESG issues. One participant noted disagreement between the board members, facing a decision which was against their values regarding human rights. Another participant noted that while their personal values do align with the concept of sustainability, their primary conflict in decision-making was with the board not fully understanding their company's sustainability strategy. This was seen in how the lack of ESG fluency by the board led to setting ESG goals that were arbitrary and therefore led to decisions that the participant did not fully support.

This sustainability aligns really well with my values. I see more of conflict in terms of what the goal is and what level it needs to reach. It really depends a lot on the dynamics between the board and the CEO.

The findings suggest that the MNC leaders who participated in this study reported good alignment between their personal values and sustainability issues. Instead, personal

value conflicts with ESG often arise from other factors, such as from the practical challenges of implementing responsible practices while balancing market demand and the expectations of organizational superiors.

5 Discussion and conclusions

This chapter uses the theoretical framework to interpret the empirical findings presented in the previous chapter. Furthermore, it discusses these results in relation to the original research questions and objectives of the study. After synthesizing these, the chapter presents the study's practical managerial implications and concludes with the study's limitations and suggestions for future research.

5.1 Synthesis of findings and theoretical framework

RQ1. How do ESG-focused investors influence MNC leadership priorities and sustainability strategies?

The influence of ESG-focused investors is apparent, but the findings reveal that it is not linear or simple. Investor pressure operates as a complex multi-channel phenomenon. While Freeman et al. (2007, p. 7) identify financiers and investors as primary stakeholders, the data highlights that direct contact between ESG investors and MNCs is quite infrequent. This doesn't mean they should be lowered from primary stakeholder position, or that their lack of direct contact diminishes their influence. Investors do shape the corporate priorities, but rather than the pressure being a direct contact, it is directed through supply chain cascades, third-party intermediaries and regulations.

According to Mitchell et al.'s (1997, pp. 865–868) stakeholder salience model, stakeholders gain salience through the power, legitimacy, and urgency that they possess. The findings indicate that while ESG-focused investors possess both high legitimacy and urgency, their direct power is more often mediated through the supply chain, rather than them having direct power with and access to leadership. Investor demands initiate a chain reaction, where institutional financiers place pressure on large B2B customers, who then apply these requirements down the value chain. For the MNC's the stakeholders who employ the most definitive power seem to be the large B2B customers. This aligns with the findings of the operational reality of the companies, where customer

demand ultimately dictates the pace and size of the sustainability transitions. If customers prioritize cost over the more sustainable alternatives, MNC leadership is constrained on how quickly the ESG timelines can be reached. However, the data reveals variance depending on the core business model of the company. In companies where strategy and business model are built upon a circular economy, the dynamic slightly shifts. For these companies, sustainability is treated even more as the primary market differentiator, rather than simply reacting to customer, investor, or compliance demands as they arise. This way they can attract both ESG capital and ESG-conscious customers simultaneously. Yet, even in companies with this strategy, participants noted that financial viability still remains as the ultimate guide for long-term ESG implementation.

ESG capital is typically channeled through different financial intermediaries and rating agencies. Barko et al. (2021, pp. 28–31) and Hill (2020, pp. 59–60) argued that these intermediaries lower information asymmetry and act as one of the mechanisms of pressuring managerial decision-making. The findings show that companies prioritize third-party verifications, such as those from EcoVadis and SBTi, as well as add emphasis on achieving high ratings, in order to proactively satisfy investor expectations. By focusing on these more standardized metrics, rather than on individual demands, executives substitute the need for constant investor dialogue.

Moreover, the findings suggest that investors evaluate companies based not only on their current level of compliance but also on their ability to adapt to legislative changes. Investors might pressure MNCs to adopt new regulatory standards before they are mandated and to have them adjust their operational and reporting strategies ahead of the rest of the market. Furthermore, the empirical data provides evidence for the substitution effect between different sources of external ESG demands. Bolognesi et al. (2025, p. 17) showed that while investor pressure and regulatory pressure are interconnected, they still function as distinct forces and that they often also substitute each other. This means that the stricter the regulations are, the less direct ESG contact is being made. The findings of this study confirm this dynamic. Participants noted that

the frequency of direct ESG-related questions from investors has noticeably decreased in recent years, despite sustainability remaining a top priority and regulations demanding constantly more.

ESG investors also influence MNC priorities through executive remuneration, by asking for compensation structures that are tied to different sustainability targets. Townsend (2020, pp. 6–10) and Hill (2020, p. 45) noted that fiduciary duty has increasingly come to include ESG considerations which include data-driven metrics to hold leaders accountable for their decisions. The empirical study supports this and shows that ESG-focused analysts do target remuneration reports to ensure that leadership incentives are aligned with the financial performance of the company and their ESG targets. In the data, this was argued with the idea that numerical remuneration data is most likely easier to quantify and target than broader ESG issues for the investors and is therefore an easier metric to challenge. When the compensation is being tied to the ESG performance of the company, investors can ensure that the company's sustainability strategies are not only an ideological ambition or greenwashing.

RQ2. What leadership challenges do MNCs encounter in responding to ESG investor expectations?

As mentioned, ESG investors attempt and do influence executives both directly and indirectly. Leaders at MNCs face operational and cognitive challenges when trying to satisfy these demands. Firstly, the findings reveal a conflict in the management of information asymmetry within the ESG landscape. The traditional financial literature, such as the aftermentioned Barko et al. (2021, pp. 28–31) and Hill (2020, pp. 59–60), posits that financial intermediaries and reporting frameworks are intended to reduce the information asymmetry between investors and management. However, the findings suggest that, in achieving this, the current ESG ecosystem also has the opposite effect. Executives and investor relation professionals reported frustration with the third-party rating agencies and proxy advisors, noting that they might apply general metrics to

complex and multileveled issues without fully understanding the industry. Because of this skewed information, their criteria might be misaligned, and this way, companies might be penalized for necessary governance structures or operational realities that are needed for survival in their industry. The ratings were also considered opaque. While agencies demand transparency from the companies, the transparency does not necessarily work both ways. Companies do not necessarily know the depths of the criteria on which they are being rated. These factors combined to create a situation in which managers felt that their ESG work was occasionally inefficient. Instead of reporting and developing their ESG work, they might have to waste resources trying to educate investors on why the different ratings do not show the full picture or are wrong, and what the true operational realities of the industry are.

This challenge is further intensified by the instability of mandatory reporting frameworks such as the EU Taxonomy and CSRD and other more product specific sustainability regulations. Simon (1960, pp. 3–4) identified three distinct phases in the decision-making process: intelligence, design, and choice. With sustainability issues, this process is almost always initiated by an external factor (Aharoni et al., 2011, p. 137). However, the findings reveal that, regulatory landscape in the EU is considered highly volatile. This causes that with in the case of delay, introduction of new regulations or the scaling back of them, cause the “intelligence” and “design” phases of the decision-making to be disrupted. Participants noted that this regulatory uncertainty can ultimately freeze strategic actions in the industry. As capital investments in industrial machinery are intended to last decades, the unpredictability of ESG legislation can stop the final choice phase, occasionally even resulting in financial penalties for companies that adopted green technology early in anticipation of requirements that were then delayed or revised.

Finally, the findings show that the challenges of ESG leadership are not just external, but they are also tied to internal framing and organizational hierarchy. The upper echelons theory established by Hambrick and Mason (1984) proposes that the strategic choices of top management teams are filtered through their own personal cognitive base. In this

study the participants consistently framed their personal values to be in line with sustainability. This suggests that, for these executives, ESG integration is not perceived as an ideological imposition, but rather as something that aligns with their own priorities. Rather than framing resistance to ESG demands as a moral conflict, executives often presented these challenges as financial and operational limitations. As Aharoni et al. (2011, p. 136) observe, the way in which a decision is framed influences its outcome. In this context, MNC leaders may remove the ideological dimension from external ESG demands and focus on the more rational and stricter operational and financial calculations.

However, further critical analysis of this conclusion is needed. While the answers showed strong support for ESG and minimal personal value conflicts were present, this cannot be directly tied to upper echelons theory and accepted as an absolute truth. It is possible that interviewees presented themselves in a more pragmatic way, not because that is what they really think, but as that is the way that they are expected to speak and articulate in a professional setting. Therefore, the absence of ethical and moral framing in interview responses cannot be taken as conclusive evidence. If executives are performing pragmatism, the data might capture their role, rather than their decision-making reality. Both observations could equally be true, but the findings in this regard should therefore be taken with appropriate care.

What the findings do show with a higher confidence is that cognitive friction among executives rarely was visible as a personal refusal of sustainability. Instead, it arose when they had to act as a buffer between operational reality and the strategic expectations of external stakeholders or the board of directors. Participants did express some frustration with boards that set arbitrary ESG targets without understanding the financial or operational limitations required to achieve them. Therefore, one key leadership challenge for MNC executives is not resisting or approving ESG integration but absorbing external pressure and translating ESG rhetoric into rational, financially feasible timelines

and operations, that maybe less informed stakeholders can then understand and approve.

RQ3. How do MNC leaders adapt their strategies to align with ESG-related investor demands?

In order to navigate the pressures of ESG investors and the operational challenges of ESG reporting, leaders of multinational corporations (MNCs) adapt by shifting their strategic approach from reactive to proactive. This can often give them a competitive advantage. Strategic leadership theory defines effective strategic leadership as the ability to focus on a long-term corporate vision while operationalizing it through short-term objectives (Frankl, 2015, pp. 95–97; Stowell & Mead, 2016, pp. 3–4). The findings demonstrate this exact dynamic when navigating different ESG investors demands. Rather than treating these ESG demands as external or ideological liabilities, successful executives embed them into the core of the organization. This ensures that they are working as the main pillars of the strategy, and that they are embedded to the long-term vision. Different demands and sustainability issues have to be filtered through materiality analysis, which then helps the managers filter out fragmented demands from the ones that actually generate market differentiation in their industry and profit.

Jensen and Meckling (1976, pp. 5–6) highlight the agency problem, which addresses the potential conflict between manager's own interests and optimal long-term strategic goals of the company. The findings confirm that MNCs actively tie management compensations to different ESG metrics in order to solve the principal-agent conflict. Examples by participants showed companies where up to 20% of short-term incentive bonuses were linked to strict internal sustainability metrics like emissions reductions, circularity, and workplace safety. Berk et al. (2020, pp. 41–42) warned that ESG-tied compensation can often be too vague, or the financial reward is too small to alter any change. The interviewees confirmed this risk but stated that the KPIs must be built in a way that is rigorous, transparent, and directly influenceable by the individual manager.

The findings of this study found ESG-linked compensation structured in this way to be an effective motivator for enhancing the company's ESG strategy.

Despite the different structural adaptations and compensation mechanisms, the data consistently showed that organizational adaptation is still finally limited by financial constraints of the company. This is in line with the study by Hu (2023, pp. 9–11) who noted that even when leaders possess a strong personal drive for sustainability, it translates into greener innovation only when the company does not face financial constraints. Long-term ESG investments are often the first to be abandoned when macroeconomic conditions or company profitability decline. This illustrates that, while ESG-tied compensation and strategic framing are powerful tools to align and shape the company's strategy, they cannot override the fundamental need for a company to survive financially. Furthermore, the findings also reveal that external investor demands are subject to the same macroeconomic and geopolitical shifts that the companies and customers are. For example, strict investor exclusion criteria regarding defense logistics vanished almost immediately following the outbreak of war. This highlights a central theme across the findings: Investor pressure is not constant or stable, and sustainable adaptation for the companies is only viable if it remains financially and politically feasible.

Ultimately, MNC leaders are best placed to navigate ESG demands by integrating them deeply into organizational culture and compensation structures, rather than simply reacting to them. As Whelan et al. (2021, p. 3) found, the financial benefits of ESG orientation are primarily driven by the company's improvements in risk management and sustainability-related innovation, rather than the pure disclosure. In response to the RQ3 – how do MNC leaders adapt their strategies to align with ESG-related investor demands – the most effective form of strategic adaptation is not reactive compliance, but internalization of the issues. With this in mind, the most effective adaptation is reached when investor demands or other external issues don't drive the strategy, as internal sustainability already does.

5.2 Practical implications

Based on empirical findings and theoretical synthesis, this section offers several actionable implications for stakeholders operating specifically within the ESG investing landscape. The implications are divided into four groups, including the executives and central stakeholder groups.

First, for multinational corporations and their management teams, a key implication concerns the proactive management of investor demands. One way of achieving this is to conduct a materiality analysis and anchor the most important ESG initiatives into the strategy and use them as a competitive advantage, if possible. This strategic base also enables management to more easily assess the relevance of emerging requirements as they arise. To further ease the administrative load of investor enquiries and the cascading effects on ESG demands across stakeholders and supply chain, securing widely recognized third-party validations, such as SBTi or EcoVadis, is worth considering. Such certifications act as effective communication tools that often proactively satisfy capital market requirements.

When using ESG-linked compensations, it is important to ensure that its clearly defined, transparent, calibrated to a level that genuinely influences decision-making. ESG-linked compensation should also be tied to metrics that remain within the direct control of the managers accountable for them. Only this way using the fiduciary lever can be used to translate actual internal change.

Secondly, the successful execution of these corporate strategies requires clear alignment also at the board of directors. The findings suggest that boards would benefit from deepening their operational ESG fluency in order to more effectively work between investor expectations and the internal realities of the companies. This includes developing a better understanding of practical limitations, supply chain constraints, and industry-specific dynamics relevant to different ESG demands. As the findings suggest, financial feasibility ultimately dictates the pace of sustainability transitions, and boards

should therefore engage with executives on equal footing. This alignment helps to ensure that investor-driven environmental mandates remain compatible with the organization's broader financial stability and overall strategy.

Thirdly, for the primary drivers of this pressure, ESG investors, rating agencies, and proxy advisors, this study points to potential limitations in current evaluation methodologies. To meaningfully reduce information asymmetry and support sustainable corporate growth, ESG evaluators could engage more closely with companies to understand industry-specific nuances and operational trade-offs, such as emission profiles of different manufacturing materials. Investors could also place greater reliance on third-party validations, with norms-based screening, while simplifying and clarifying their data requests, thereby reducing the cascading administrative burden placed on MNCs. Admittedly, given the pure volume of companies in investor portfolios, in-depth engagement with each firm and its operation is not always feasible, which in turn makes the quality and efficiency of standardized data requests all the more critical.

Finally, the study points to the importance of regulatory stability. The shifting environmental legislation shapes the frameworks investors use to evaluate corporate performance. Frequent changes, whether through new directives, delays, or rollbacks, will often complicate long-term strategic planning, especially for large firms operating in multiple countries and with multiple products. Given that capital investments in green technology often require long-term investments, clear and predictable legal frameworks would allow companies to plan with greater confidence. This way companies that proactively adopt sustainable practices are less likely to find themselves disadvantaged in the face of a possible regulation change.

5.3 Limitations and future research

This thesis explored the pressure applied by ESG investors to executive leaders and its impact on their decision-making processes. While the sample included five participants with a wide and in-depth understanding of the issue and was selected using purposive

sampling, the sample size is insufficient to be generalizable to every Finnish stock-listed MNC. While the study included firms across small, medium, and large-cap categories from various industries, a more narrowly defined sample may have yielded more size- or sector-specific insights. Due to the time constraints of the thesis process and the author's limited access to interviewees, more narrowing was not done.

With ESG investing following macroeconomic and geopolitical waves, the study is a snapshot of the present time and may not be applicable in the future. The study focused only on the executive and investor relation professionals' perspective and therefore does not consider any other stakeholders, such as investor funds, analysts, banks or insurance companies. Conducting the study from their perspective would clarify why things are done the way they are and offer another insight on the relevance of ESG issues, and the amount of pressure and change that they are trying to exercise. Broader access to executives would have also allowed for larger sample size and longer interviews, which in turn could have facilitated stronger rapport with participants and opened space for more value- and belief-based lines of questioning.

Other future research suggestions are narrowing the study to a specific industry or doing the research with a region outside of Finland. This would let see if the findings found in this study do generalize also to different countries and regions. Now the legislation discussed was only European, and the companies represented were solely from Finland. Beyond the methodological extensions, the relationship between regulatory stability and investment levels in green technology could yield an interesting area of study. Finally, the effectiveness of third-party certifications in reducing information asymmetry between investors and corporations could warrant further investigation.

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Appendices

Appendix 1. Interview Guide

The purpose of the study:

The objective of this research is to explore how the expectations of ESG focused investors influence the internal decision-making processes of multinational corporations. The study examines real-life practical challenges that leaders face when balancing financial targets with sustainability expectations.

Confidentiality & Ethics:

- All personal and organizational identities will be anonymized in the final thesis.
- No specific comments will be attributable to you, or your company.
- The interview will be recorded for transcription purposes only and the recording will be deleted once the analysis is complete.
- You may decline to answer any question or end the interview at any time.

Questions

Background

1. Can you describe your professional background and how you came into your current leadership role?
 - a. How many years do you have in this role?
2. How has ESG conversation changed over the last few years in your area?

Stakeholders

3. Through which channels do ESG related expectations from investors usually reach you? Does one of them feel the most influential?
4. Are you able to describe a specific situation where ESG expectations and financial or operational goals have been difficult to balance?
5. Has there been a situation where ESG-focused investors have had different expectations than other stakeholders?
 - a. Do you see this as broader pattern? How did you prioritize them?

6. Could you walk me through a concrete decision, from when an investor demand first came in, to how those demands were evaluated internally and how they were then acted upon?

Decision-making

7. When you consider sustainability initiatives, how do you think about the balance between short-term costs and long-term benefits?
 - a. Are there situations where different stakeholders have different time horizon expectations around that timing? How do you navigate that?
8. How do reporting regulations like CSRD affect your day to day leadership and strategic decision-making?
9. Can you recall a situation when performance targets have influenced how ambitious you could be with ESG related initiatives?
10. Do you see sustainability demands as risks, opportunities or obligations? Has the perception changed over time?
11. Have you been in a situation where engagement with an ESG investor has caused you to rethink a strategic decision?
 - a. Through which channel was this influence delivered?
 - b. How do you evaluate whether they are strategically relevant?

Leadership

12. How do your personal values interact with investor expectations when making sustainability related decisions?
13. Have you had to change your internal decision-making structures (new committees, new reporting lines, board composition) to handle these investor demands?
14. What is the biggest challenge you face personally as a leader when trying to navigate these investors' ESG demands?
15. Is there anything regarding this topic that you would like to add?

Appendix 2. The use of AI

Artificial intelligence (AI) tools were used in various stages of this thesis. These tools were used to enhance grammar and phrasing, and to assist with understanding research topics and terminology. The final text reflects fully the author's own reasoning, analysis and conclusions.

The following tool was used to refine sentences and enhance their academic quality and assist with translating interview transcriptions.

- DeepL (2026)

The following tools were used as an assistant to support understanding of concepts and terminology.

- Gemini 3.1 and Claude 4.6

The work was done as such that all sections and phrases were first written by me, and then AI was used to suggest alternative phrasing, or correct grammar if and where necessary. All suggestions given by AI were critically reviewed by me before using them in the thesis. As English is not my first language, I believe the use of AI enhanced the overall grammar and tone of the thesis. As a research assistant, AI was used to ensure that topics and ideas were understood correctly and to point out inconsistencies in the text.

During the translation of the transcripts, non-anonymized transcripts were not given to the AI models. All transcripts were first manually corrected and anonymized before using the help of translation tools. AI was not used in the search of sources.