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Sustainability reporting and strategy in Financial Institutions

Analysis of sustainability reporting in Finland 2017-2021

School of Management
Master's thesis
Strategic Business Development

Vaasa 2023

VAASAN YLIOPISTO	
Johtamisen yksikkö	
Tekijä:	Noora Kauppi
Tutkielman nimi:	Sustainability reporting and strategy in Financial Institutions Analysis of sustainability reporting in Finland 2017-2021
Tutkinto:	Kauppatieteiden maisteri
Oppiaine:	Strateginen liiketoiminnan kehittäminen
Valvoja:	Jukka Vesalainen
Vuosi:	2023 **Sivumäärä:** 63

TIIVISTELMÄ:

Yhteiskuntavastuu ja ympäristöteemat sekä niistä kommunikointi ovat muuttuneet vuosien varrella, kun ymmärtämisemme on kasvanut ja tietomme lisääntynyt. Niiden tärkeys on kuitenkin pysyvää tai jopa lisääntyvää ja käsitteemme muuttuvat entistä kattavammiksi Tässä tutkielmassa esitetään vastuullisuuden pääteemoja, kuvaillaan rahoitusalalle ominaisia vaatimuksia ja käsitellään vastuullisia strategioita ja raportointia.

Yritysten vastuullisuusraportointi on kehittynyt huomattavasti viimeisimpinä vuosina. Sääntely on lisääntynyt ja paine kattavaan vastuullisuusraportointiin on kasvanut myös erilaisten sidosryhmien osalta. Vastuullisuusraportit ovat hyvä tiedonlähde sidosryhmille.

Tässä tutkielmassa tutkitaan pankkien vastuullisuusraportteja ja niiden kehitystä vuosina 2017-2021. Tutkielman tavoitteena on selvittää mikä on tämänhetkinen vastuullisuusraportoinnin tilanne finanssialalla Suomessa, sekä tutkia minkälaisia vastuullisuusstrategioita pankeilla on.

Tutkimusten tulosten mukaan vastuullisuusraportointi on kehittynyt tutkittujen 5 vuoden aikana. Kasvavia trendejä ovat esimerkiksi erillisen vastuullisuusraportin julkaisemisesta siirtyminen integroituun raportointiin, missä vastuullisuusteemat julkaistaan vuosiraportoinnissa. Vastuullisuusraportoinnin standardeja on monia, mutta Suomessa suosituin GRI raportointi standardi on tutkimusten tulosten mukaan suosituin myös finanssialalla. Pankkien vastuullisuusraporttien tasoissa on huomattavissa eroja kattavuuteen ja uusien viitekehysten implementiointiin liittyen. Osa pankeista on aloitteellisempia ja seuraavat sääntelyn kehittymistä tarkemmin.

Tutkimuksen tulokset osoittavat lisäksi pankkien seuraavan suhteellisen samanlaisia vastuullisuus strategioita. Valokeila on toistaiseksi ympäristövaikutusten vähentämisessä ja sääntelyn noudattamisessa tai sitä ennakoitaessa. Pankit eivät vielä ole integroineet vastuullisuusteemoja tuotteisiin ja palveluihin huomattavalla tasolla. Pankit kuuluvat myös suhteellisen samanlaisiin strategisiin ryhmiin, kun otetaan huomioon vastuullisuusraportoinnin kattavuus sekä viitekehysten implementointi.

AVAINSANAT: Yhteiskuntavastuu, vastuullisuusraportointi, vastuullinen strategia, ESG, rahoitus

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Name of thesis:	Sustainability reporting and strategy in Financial Institutions Analysis of sustainability reporting in Finland 2017-2021
Discipline:	Master of Science in Economics and business administration
Major:	Strategic Business Development
Supervisor:	Jukka Vesalainen
Year:	2023 Pages: 63

ABSTRACT:

Sustainability and environmental concepts have changed through the years when the understanding and knowledge have increased. The topics have become increasingly important as the concepts have become more comprehensive. This research outlines the main themes of sustainability, describes the specifications of sustainability in financial industry and discusses the sustainability strategies and reporting.

Sustainability reporting of companies has developed significantly in the past years. The regulation has increased and there is more pressure to report on their sustainability to various internal and external stakeholders. Sustainability reports are a great source of information for different interested parties.

This research is focusing on the sustainability reporting and the development of it in financial institutions in 2017-2021. Aim of this research is to understand the current situation of sustainability reporting in Finland and research the different sustainability strategies that the financial institutions currently have.

Research findings include the development of sustainability reporting during the inspected 5 years. Growing trends are e.g., moving towards integrated reporting, where sustainability themes are included in the annual reporting, instead of publishing a separate sustainability report. There are multiple different sustainability reporting standards, but the most popular standard in Finland is GRI reporting. According to this research it is also the most popular standard in the financial industry. There are significant differences including comprehensiveness of the reporting and implementation of the new standards in the sustainability reporting of financial institutions. Some of the financial institutions are early implementors and follow the development of the sustainability standards closely.

Research concludes that financial institutions follow relatively similar sustainability strategies. Highlight is on decreasing environmental impacts and following or predicting future regulations. Financial institutions have not yet integrated sustainability themes to their products and services on a notable level. Financial institutions also belong to relatively similar strategic groups, when considering the comprehensiveness of their sustainability reporting and framework implementation.

KEY WORDS: Corporate Social Responsibility, Sustainability reporting, Sustainability strategy, ESG, Finance

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1 Introduction

This chapter describes the background information of this thesis, research aim, design and questions, and the structure of the thesis. The background information is introduction to the topic of sustainability and sustainability reporting. Research aim, design and questions describe the reasoning behind the topic, how the research has been executed and introduction to the research questions. Structure of the thesis introduces the different sections that this research is divided to.

1.1 Background

Corporate Social Responsibility (CSR) is an old concept first suggested with that name by Bowen (1953). Corporate Social Responsibility includes the society's expectations for organizations, including economic, legal, ethical, and discretionary viewpoints. This was the concept behind sustainability, which was defined in the Brundtland report (1987) as "meeting the needs of the present generation without compromising the ability of future generations to meet their needs". The concept of sustainability is now 35 years old, and the implications are still extremely relevant.

So relevant, that now there is a legally binding international treaty on climate change: Paris agreement. As it is stated in the UNFCCC (2021), the Paris Agreement was first adopted in 2015 and it came to force in 2016. The goal of the Paris Climate Agreement is to limit the global warming below 2 degrees Celsius. To achieve this goal, the countries that have signed the agreement aim to achieve a climate neutral world by 2050 and have agreed and submitted their plans for nationally determined contributions.

Countries can keep track of their decreasing emissions by collecting and analyzing reporting from companies operating in the different markets within the country. Sustainability reporting has been a voluntary practice according to Lozanoa & Huisinghb (2011), but the pressure from regulators and stakeholders is increasing and more companies are reporting on their sustainability. As there are several different guidelines and standards, it is possible for the companies to choose which ones they want to follow. For the company to be able to choose the best fit for their purposes, it is important to decide on their approach on sustainability and the local regulations of the company's operating markets.

As local regulators are imposing new regulations to different markets, it is interesting to see how a highly regulated market can adjust to the regulatory pressure. Financial institutions (e.g. including banking, insurance and investment companies) operate in a market that is highly regulated by different regulators. In Finland, the main regulators and supervisors include European Commission, European Central Bank, Finland's Bank, Basel Committee on Banking Supervision, European Banking Authority and local Financial Supervisory Authority Finanssivalvonta. The regulators share the responsibility and cooperate to ensure the stability of financial markets (Suomen Pankki Homepage, 2021).

At the same time, financial industry is a key player in the sustainable transformation towards climate neutrality. There is a major difference in the perspective of sustainability on the financial industry and other industries. The sustainability risks and opportunities of financial industry operators are not coming from their own operations as such, but the biggest impacts are coming through the selection of their customers. When for example a manufacturing company can decrease the emissions of their factories and production, the financial institutions climate impacts are coming through their customers' operations. Therefore, collecting climate and sustainability data on customers is extremely important.

How are banks then reporting on their sustainability? According to research made by KPMG (2020), Finland is one of the highest-ranking countries in the number of companies reporting about sustainability. Currently, approximately 90 percent of the Finnish companies are reporting on sustainability. In 2020, 76 percent of the companies announce that they have integrated UN Sustainable Development Goals to their business.

Increasing amount of Finnish companies sees the sustainability reporting as a possibility service their business and information needs of the investors. This is accompanied by recognizing business opportunities and risks in the sustainability area, as well as developing the reporting on the financial impacts.

So why should banks care about their sustainability strategy and reporting? As Pesonen (2007) found in their research, integrating climate related activities can add value to the company. This can be measured for example by increased operational efficiency, increased regulatory compliance, successful risk management, growth in the market, new innovations, and finally to new business concepts. When the companies are successfully integrating sustainability factors in their strategy, the value creation model of the company might change and lead to increased profitability in the future.

1.2 Research aim, design and questions

Sustainability reporting has increased significantly in the past 5 years and currently in Finland most of the companies report their ambitions, targets, and initiatives yearly either as a part of their annual reporting, or as a separate sustainability report according to KPMG (2020). Sustainable business strategies have also been a growing trend in the different markets, but there is a research gap since there is not expansive research made on the topics in the financial industry in Finland.

There is a major difference in the perspective of sustainability on the financial industry and other industries. The sustainability risks and opportunities of financial industry operators are not coming from their own operations as such, but the biggest impacts are coming through the selection of their customers. This research gap is they key contributor to the ambitions of this research.

The methodology chosen for this thesis is qualitative research, more specifically qualitative content analysis. This research is a case study. Data for this research is collected from the publicly available sustainability reports and categorized and analyzed by the researcher. Data was collected for five years in 2017-2021.

Research questions are essential part of the research framework and set the intentions of the research. This thesis aims to answer the following research questions:

1. *What are the current industry standards for sustainability regulation and reporting in financial industry?*
2. *What sustainable strategies the financial institutions are following?*

The purpose of the first research question is to examine the industry standards and current level of the companies' sustainability reporting. By understanding the industry standards, it is then possible to look at the second research question, where the companies can be categorized according to their sustainability strategies.

1.3 Structure of the thesis

This thesis is divided into 4 main chapters: Introduction, Theoretical framework, Research framework and Research findings and discussion. In the Introduction section the topic is introduced, the research aim, design and questions are shortly described, and the structure of the thesis is introduced. Theoretical framework is divided in four sections, including introduction to the background of sustainability, sustainable finance, sustainable strategy, and sustainability reporting.

Research framework is divided to four chapters, first the introduction to chosen methodology is presented, followed by research questions and research gap, introduction of case companies and introduction of data and analysis methods. Research findings and discussion chapter describes the findings of the research on company level and industry level, and summarizes the topic, research aim, design, theory, and findings of this research, as well as concludes to the limitations of this thesis.

2 Theoretical framework

In this chapter, the theoretical framework for this thesis is introduced. The theoretical framework is divided in four sections, including introduction to the background of sustainability, sustainable finance, sustainable strategy, and sustainability reporting. Figure 1 outlines the topics discussed in this section.

Background of sustainability section introduces the key concepts of Corporate Social Responsibility, Sustainability, Environmental Social Governance, as well as Paris agreement, UN Sustainable development goals and Science Based Targets. These concepts are common for all companies interested in sustainability. In next section sustainable finance concepts are introduced, they are specific to Financial Industry. These concepts include sustainability regulation, United Nations Environmental Programme Finance Initiative (UNEP FI), Principles for Responsible Banking, Socially Responsible Investments and Principles of Responsible Investing and Stock Exchange.

This chapter will then continue to describe sustainable strategy, where the strategic groups, strategic scenarios and strategic planning are discussed, followed by discussion on sustainable business strategy and sustainability KPIs. Finally, the chapter will conclude to the section of sustainability reporting. Sustainability reporting section includes concepts of Double materiality, Global Reporting Initiative standard, Task Force on Climate Related Disclosures, Non-financial Reporting Directive, International Integrated Reporting Council, Sustainability Accounting Standards Board and EU Taxonomy.

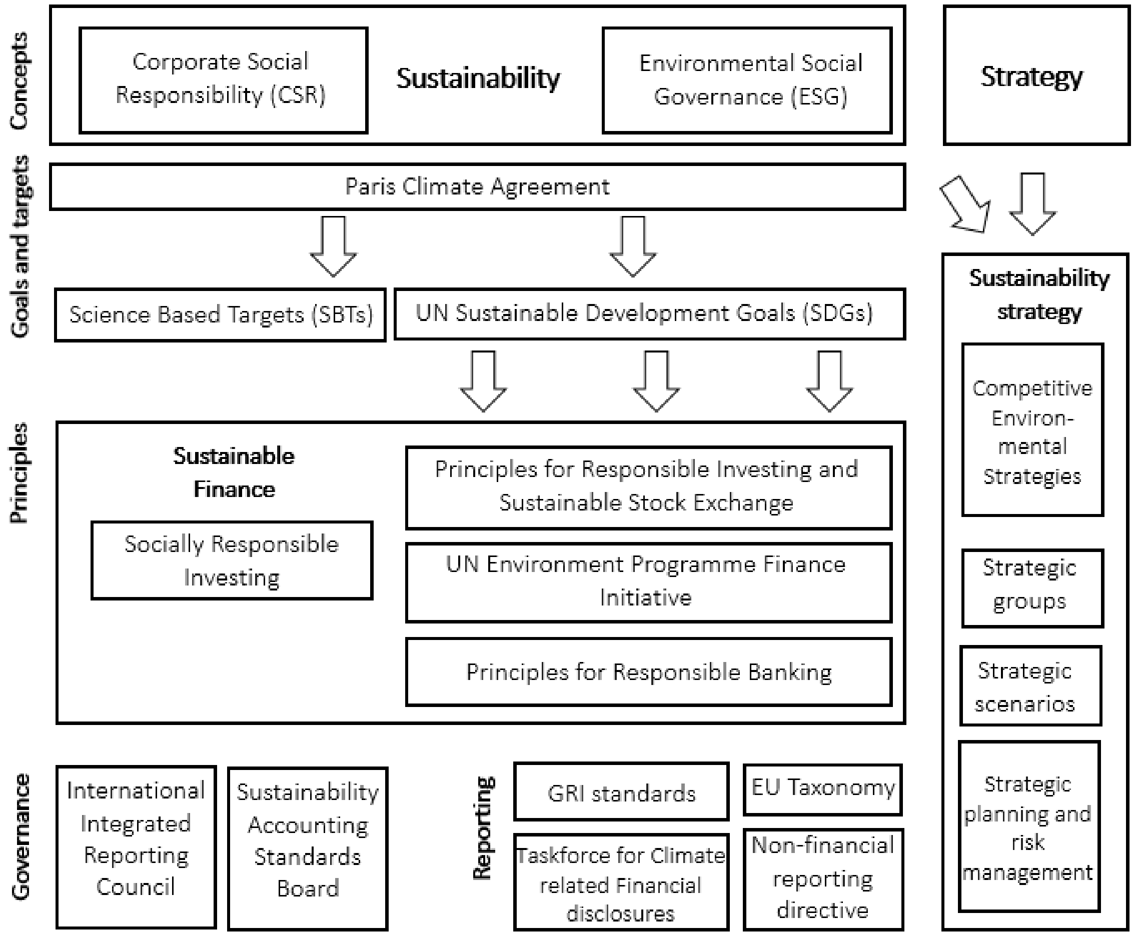

Figure 1 Outline of background & concepts discussed in this research.

2.1 Background of sustainability

This section contains a general introduction about the background of sustainability, starting by definitions of ESG, CSR and Sustainability. The section then continues to introduce the Paris agreement, Sustainable Development goals and Science Based Targets.

2.1.1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an old concept first suggested with that name by Bowen (1953). According to Bowen's (1953) research, business ethics and social responsibility created a foundation for executive management and academics to consider these factors in their strategy, planning and decision-making. The concept was later further developed, gained popularity and was referenced in for example in the research of Carroll (1979) and Freeman (1984). Carroll (1979) proposed a unified definition for corporate social responsibility to be “The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time”.

2.1.2 Sustainability

In the Brundtland report (1987) sustainability is defined as “meeting the needs of the present generation without compromising the ability of future generations to meet their needs”. Juutinen & Steiner (2010) note in their research that the sustainability in organization is defined as environmental, social and economic impacts on society. These are commonly referred as the three pillars of sustainability, which are commonly used in sustainability reporting in Europe. According to Viljanen & Juuti (2018) there are also other terms commonly used for three pillars of sustainability: three dimensions of sustainability and triple bottom line perspective.

Kuisma & Temmes (2011) define the environmental aspect of sustainability as the sustainable use of resources, such as nature, and preventing damaging the environment. The social aspect is defined as wellbeing of the employees inside the organization and under the organizations influence. Harmaala & Jallinoja (2012) define the social aspect of sustainability to be focused on the employees of the organization. The economical pillar includes the creation of well-being also outside the organization, in the surrounding society and region.

2.1.3 Environmental Social Governance

The Global Compact (2004) of United Nations first introduced the term Environmental Social Governance (ESG). The environmental issues include climate change, need for waste reduction, pressure to improve performance, transparency and accountability and emerging markets for environmental services and products. The social issues include workplace health and safety, human rights, government and community relations and pressure to improve performance, transparency and accountability. The corporate governance issues include board structure and accountability, accounting and disclosure practices, audit independence, executive compensation and corruption management.

In their report, The Global Compact (2004) included the following 4 goals: Stronger financial markets, Contribution to sustainable development, Awareness and understanding of involved stakeholders and Improved trust in financial institutions. These goals aim to assist creating better investment markets and more sustainable societies. Detailed actions for different market participants are also included in the report. For example, regulators and governments are expected to implement reporting standards, companies are expected to lead the way by implementing ESG principles and improving reporting and disclosure, accountants are expected to facilitate standardization and educators are expected to facilitate training on ESG issues.

Kell (2018) discussed the rise of ESG in their article. In addition to the original concept of ESG, it has developed over time to also cover employee relations and compensation, diversity, consumer protection, building trust and innovation and supply chain management. The conclusion shows, that ESG investing has matured, the corporations and investors have growing influence and power that can affect the future of the industry and the planet.

2.1.4 Paris Climate Agreement

As it is stated in the UNFCCC (2021), the Paris Agreement is a legally binding international treaty on climate change. It was first adopted in 2015 and it came to force on 2016. The goal of the Paris Climate Agreement is to limit the global warming below 2 degrees Celsius. In order to achieve this goal, the countries that have signed the agreement aim to achieve a climate neutral world by 2050 and have agreed and submitted their plans for nationally determined contributions. In addition, the countries have submitted long term low greenhouse gas emission development strategies.

According to UNFCCC (2021), the Paris Agreement provides “a framework for financial, technical and capacity building support” to countries in need. The finance aspect of the framework includes countries providing financial assistance to developing countries. The technology aspect is about improving the resilience of climate change and reducing of the greenhouse gas emissions. The capacity building aspect of the framework is about building capabilities and capacity to deal with the climate change challenges.

As it is stated in the UNFCCC (2021), the progress will be tracked in 2024 with the enhanced transparency framework. The companies will report on the actions and progress of the climate change mitigation, adaptation measures and support.

2.1.5 United Nations Sustainable Development Goals

According to United Nations (2021), the Sustainable Development Goals (SDGs) were adopted in 2015 and they provide the agenda for the sustainable development to be accomplished by 2030. Both United Nations and the participating countries have worked decades to agree and decide on the Sustainable Development Goals in many conferences, summits, working groups and partnerships. The SDGs are a result of the hard work and commitment to building a better future.

In 2015, the United Nations (2021) introduced the following 17 different goals:

1) No poverty

2) Zero Hunger

3) Good health and well-being

4) Quality education

5) Gender equality

6) Clean water and sanitation

7) Affordable and clean energy

8) Decent work and economic growth

9) Industry, innovation and infrastructure

10) Reduced inequalities

11) Sustainable cities and communities

12) Responsible consumption and production

13) Climate action

14) Life below water

15) Life on land

16) Peace, justice and strong institutions and

17) Partnerships for the goals.

For each of the goals introduced by the United Nations (2021), there are individual targets and indicators. There are approximately 8-12 targets per each goal, and in addition each of these targets includes 1-4 indicators. The indicators are divided to 3 tiers based on multiple factors, such as methodology and available market data. According to United Nations (2021), there are multiple sources for monitoring of the progress and performance of the Sustainable Development Goals, one of them being UNCTAD.

2.1.6 Science Based Targets

According to SBT (2021), the Science Based Targets initiative (SBTi) is a driver for ambitious climate action by enabling companies to set science-based emissions reduction targets. These targets show the companies how much of greenhouse gas emissions they need to reduce, to prevent the worst climate change effects. SBTs also define the best practices of emission reductions and net-zero targets. They provide technical assistance and have a team of experts providing companies independent assessment and target validation. SBT is linked to the Paris Climate Agreement and contributes to the work of keeping the global temperature rise below 2 degrees Celsius. Currently over 1000 companies have joined the initiative.

2.2 Sustainable finance

In this section of this thesis United Nations Environment Programme Finance Initiative, Principles for Responsible Banking, Socially Responsible Investing, and Principles for Responsible Investing and Sustainable Stock Exchange are introduced. Organizations such as OECD, UN Global Compact and UNEP FI influence across borders and may set standards for other companies. United Nations has been the efficient force behind driving the incorporation of ESG practices in the Finance Industry. The different programs and initiatives to mention are UN Global Compact, UNEP Finance Initiative, Principles for Responsible Banking and Sustainable Stock Exchanges Initiative.

2.2.1 United Nations Environment Programme Finance Initiative

According to UNEP FI a (2021), the United Nations Environment Programme Finance Initiative (UNEP FI) was launched in 1992. UNEP FI currently works with more than 350 members, including banks, insurers and investors to accelerate sustainable finance. UNEP FI has established several frameworks discussed also in this research, including Principles for Responsible Banking and Principles for Responsible Investment. The purpose of these frameworks is to establish the norms for sustainable finance, and they provide a base for standard setting among reaching the major climate commitments of

SDGs and Paris Climate Agreement. UNEP FI also supports the Sustainable Stock Exchanges Initiative, that is discussed in this research.

According to report made by UNEP FI (2005) in 2005, the relevance of the ESG issues especially to the financial valuation was recognized. Prior to the report, there had been research to both support and diminish the effect of the ESG factors. In the report, it is stated that the ESG issues can have an impact on the financial performance and that it is important to assess the ESG related risks. The report focuses on the legal perspective of several countries' jurisdictions (the US, the UK, Australia, Canada etc.) and concludes that it is not stated how the ESG considerations should be integrated to the decision making.

2.2.2 Principles for Responsible Banking

According to PRB (2021), the Principles for Responsible Banking is a framework that aims to ensure the banks' strategy and practices alignment with the Sustainable Development Goals and Paris Climate Agreement. The purpose is to lead the way to a future of positive contributions to the people and the planet. Currently, 220 banks have joined the change movement. The actions that the banks are required to take are the following: 1) Analyzing the current impact on people and planet, 2) Set and implement impactful targets based on the analysis and 3) Report the progress. All of the participant banks must report on these actions and progress.

PRB (2021) introduces the following six principles:
1) Alignment
2) Impact & target setting
3) Clients & customers
4) Stakeholders
5) Governance & culture and
6) Transparency and accountability.

Alignment ensures that banks align their business strategy to SDGs, Paris agreement and other relevant national and regional frameworks. Impact and target setting focuses on increasing positive impacts and decreasing negative impacts to people and environment, where setting and publishing targets is key factor. Clients and customers describe working responsibly with customers to facilitate sustainable practices that create prosperity for current and future generations. Stakeholders are managed to responsibly achieve society's sustainability goals. Governance and culture include the commitment implementation through governance in responsible banking. Transparency and accountability are about reviewing the implementation of the principles and staying accountable to the goals.

The purpose of the principles is to demonstrate the positive contribution the banks are making to the overall society. The principles also show the embedment of the sustainability on different levels of the banking.

2.2.3 Socially Responsible Investing

According to Kell (2018), Socially Responsible Investing (SRI) is understood as the integration of environmental, social and governance factors into investment processes and decision making. The concept has been around much longer than ESG, but it is based on different approach and criteria. In SRI, the investor is excluding companies producing harmful products or services from the investment portfolio, whereas in ESG, the investor believes in the financial relevance of the ESG factors.

2.2.4 Principles for Responsible Investing and Sustainable Stock Exchange

Kell (2018) explains in their article, that the two reports produced by The Global Compact and United Nations Environment Programme Finance Initiative provided a foundation of launching the Principles for Responsible Investing (PRI) and Sustainable Stock Exchange Initiative (SSEI).

According to Kell (2018), the Principles for Responsible Investing (PRI) were launched in 2006. The role of these principles is to increase the integration of ESG aspects to the analysis and decision making of the corporations. PRI (2021) includes six principles: 1) Incorporating ESG issues into investment analysis and decision-making processes, 2) Incorporating ESG issues into ownership policies and practices, 3) Appropriate disclosure on ESG issues by the entities invested to, 4) Promoting implementation of the Principles in the investment industry, 5) Working together to enhance effectiveness of implementing the Principles, and 6) Reporting activities and process of implementing the Principles.

As Kell (2021) described in their article, Sustainable Stock Exchange Initiative (SSEI) was launched in 2007. SSEI (2021) is a collaboration platform with a purpose of learning and exploring how exchanges can enhance transparency and performance on ESG issues. In addition, the purpose is to encourage sustainable development. The investors, regulators and companies can collaborate on the platform.

2.3 Sustainability strategy

This section will introduce the competitive environmental strategies, strategic groups, strategic scenarios, strategic planning and risk management, and sustainable business strategies. With these topics, it is possible to understand the dimensions of the sustainable strategies.

Porter (1979) defines strategy through a competitive position. In their research strategy is defined as "deliberately choosing a different set of activities to deliver a unique mix of value". This highlights the importance of understanding the market and competitors where the company is operating, as they do define the external factors affecting the business.

Mintzberg (1987) defines strategy through 5Ps: strategy as a plan, pattern, position, play and perspective. According to their research strategy as plan is purposeful and developed in advance. Strategy as pattern is a series of deliberate actions, strategy as position places company in the environment best suited for the company's goals. Strategy as play means gaining competitive advantage through disrupting the rivalry and strategy as a perspective is how the organization is perceiving the environment and market.

2.3.1 Competitive environmental strategies

Orsato (2003) defined 4 competitive environmental strategies: Eco-Efficiency, Beyond Compliance Leadership, Eco-Branding and Environmental Cost Leadership. Eco-efficiency strategy focuses on decreasing the costs and environmental effects, so that is suitable for industries supplying industrial markets, that have high processing costs and much waste. Beyond compliance leadership strategy includes developing companies' competences further than regulators or industry standards currently expect – it is voluntary based but will create value through first mover advantage before the standards become more like licenses to operate. Eco-branding strategy has three pre-requisites, clients' willingness to pay the costs for ecological differentiation, clients must have access to reliable information about the product's environmental performance and the product should be difficult to imitate. Finally, environmental cost leadership strategy considers the innovations for existing products to be more environmental.

Figure 2. Competitive strategies as described by Orsato (2003).

2.3.2 Strategic groups

Strategic groups were first introduced by Hunt (1972) in their research, where he discovered competition to be higher than expected on the industry he was analyzing. He attributed the higher degree of competition to existence of subgroups (strategic groups) in the industry and concluded that the groups increased innovation and quality and decreased pricing and profitability.

In their research, Porter (1979) stated that the companies form strategic groups within the industry. In the companies belonging to the same strategic group, decisions are made according to similar principles. Strategic groups may have mobility barriers that explain the differences in companies chosen strategies and earnings. The competition between the strategic groups has three factors: Number and size distribution of groups, Distance between groups and Market interdependence of the groups. The purpose for the strategic groups is to help recognize the company's position in the industry.

Strategic groups can be applied in practice by choosing different dimensions where analyzed companies are then placed. According to Leask and Parker (2006) the choice of dimensions requires knowledge of the industry in scope, and it should be theoretically suitable. In this research the dimensions relate to sustainability reporting in the financial industry.

In the sustainability research, the common scheme on grouping companies is often based on the development of sustainability in the company. For example, in their research Hunt and Auster (1990) used five categories for classification: beginners, fire fighters, concerned citizens, pragmatists and proactivists. Beginners add the responsibility of sustainability to existing positions, or don’t address it at all. Banks are often in this category. Fire fighters are short on staff and funding, and thus respond only to top priority items. Concerned citizens express their commitment to sustainability but don’t have the mandate or hierarchy to take on major initiatives. Pragmatists manage sustainability actively, they have staffing, funding, and authority in place, but their influence might still be limited. Proactivists reach beyond policy and prevention, have clear goals, reporting and are active towards authorities and society.

Other example is from the research of Hahn & Scheermesser (2006), where they categorized companies to three different groups: sustainability leaders, environmentalists and lastly traditionalists. Sustainability leaders are driven by ethics and commitment to sustainable development, and they have embedded social responsibility in their company. They view sustainability as an extra task in addition to their core business and have included social aspects, such as employee participation and motivation, to their sustainability reporting. Environmentalists are less driven by ethics and more motivated by cost controlling and image reasons. They have included significantly fewer social measures to their business. Traditionalists view sustainability through law and regulations and are motivated by traditional business goals (revenue, opportunities and positive image).

Toppinen et al. (2012) made research in strategic groups and corporate responsibility in forest-based industry. In their research, quantitative analysis was made using GRI reporting data and companies were divided to three strategic groups based on their approach to GRI reporting: defensive, proactive and “stuck-in-middle” approaches. Similar approach to using sustainability reporting information as basis for the strategic group analysis is used in this research, except for different (qualitative) research method.

2.3.3 Strategic scenarios

In their research, Schoemaker (1995) described scenario building blocks to be Drivers of change, Basic trends & Key uncertainties and Rules of interaction all resulting to Multiple scenarios. Their research is based on three types of knowledge, Things we know, Things we don’t know and Things we don’t know we don’t know. In the context of sustainability. these scenarios could be directly derived from the Paris agreement climate goals. Example scenarios could be 1. Global warming staying below 1,5 degrees, 2. Global warming between 1,5 and 2 degrees, and 3. Global warming over 2 degrees. Scenario analysis is an example of a strategic tool that can be used to assess the climate change impacts on the company and company’s impacts to climate change.

2.3.4 Strategic planning and risk management

As described by TCFD (2022) strategic planning and risk management include risks and opportunities from the sustainability perspective. Sustainability risks can be divided into physical risks and transitional risks. Physical risks include acute and chronic risks, such as changed weather conditions (e.g., flooding, hurricanes) that can be threatening the physical company operating premises or supply chains. Transitional risks include legal and policy risks, technologies, market and reputational risks.

On the other hand, sustainability opportunities include resource efficiency, energy sources, products and services, markets, and resilience. These risks and opportunities that impact strategic planning and risk management, create financial impacts to balance sheet, cash flow statement and income statement. Balance sheet is impacted in Assets

& Liabilities and Capital & Financing. Income statement is impacted in Revenues and Expenditures.

There is a key difference in the perspective of sustainability on the financial industry and other industries. The sustainability risks and opportunities of financial industry operators are not coming from their own operations as such, but the biggest impacts are coming through the selection of their customers. When for example a manufacturing company can decrease the emissions of their factories and production, the financial institutions climate impacts are coming through their customers' operations. Therefore, collecting climate and sustainability data on customers is extremely important.

2.3.5 Sustainabile business strategy

According to Hoffmann & Woody (2008) the frameworks, markets and competitors are already changing in response to climate change, and the strategic planning of the companies is in the focus of addressing these climate change factors in business decision making. Increased requirements and regulatory development are changing the markets by the application of taxonomy and new standards. The effect of these changes also applies to banking and investment industry through their customer selection processes, it is expected that the preferences will change due to climate related factors. The strategic leaders need to decide on actions and aim to predict what the future market will look like, to stay relevant also in the future.

Porter & Reinhardt (2007) argue that climate change effects, including regulatory, social and economic perspectives, should be approached with strategic tools. The company needs to decide on relevant approach to climate change and assess the inside out impacts. The inside out perspective is focused on strategic opportunities and allows strategic decision makers to analyze the company's impacts to climate change through their value chain. It is then possible for the management to decide on best action to address the specific value chain activities based on the emissions they create.

According to the research of Kolk & Pinkse (2004) most of the companies are focusing on taking internal measures, such as decreasing their energy usage, while the companies should also consider their product development and include supply chains in their climate strategies. These points are extremely relevant to banks and investment companies, since most of their greenhouse gas emissions are not from physical operations, such as use of paper or business travel, but through the client's industries they decide to invest in. This gives the banking industry an increasing amount of power to alter the market conditions by incorporating climate factors in their credit decision making processes.

While looking at how the company affects the climate change through greenhouse gas emissions, we also need to reverse the perspective and account for how the changing climate affects the company. As Stern (2008) found in their research, these effects include severe weather conditions threatening the physical operating premises of companies and their supplier chains. Assessing these potential effects should be considered in the company strategy and decision making.

Pesonen (2007) found in their research, that integrating climate related activities can add value to the company. This can be measured for example by increased operational efficiency, increased regulatory compliance, successful risk management, growth in the market, new innovations, and finally to new business concepts. When the companies are successfully integrating sustainability factors in their strategy, the value creation model of the company might change and lead to increased profitability in the future.

2.4 Sustainability reporting

Lozanoa & Huisinghb (2011) noted in their research that sustainability reporting has been a voluntary practice, but the pressure from regulators and stakeholders is increasing and more companies are reporting on their sustainability. As there are several different guidelines and standards, it is possible for the companies to choose which ones they want to follow. For the company to be able to choose the best fit for their purposes, it is important to decide on their approach on sustainability and the local regulations of the company's operating markets.

There are several authorities that set the standards for corporate reporting, including International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), CDP, Financial Accounting Standard Board (FASB), and Climate Disclosure Standard Board (CDSB).

2.4.1 Global Reporting Initiative standards

In their article, Kell (2018) notes that in 2018 over 80% of the world's largest corporates use the Global Reporting Initiative (GRI) standards in their reporting. As Isaksson & Steimle (2009) stated in their research, GRI is a non-profit organization with headquarters in the Netherlands. GRI was founded in 1997 by United Nations Environmental Program (UNEP) and Coalition for Environmentally Responsible Ecomonies (CERES). According to Global Reporting Initiative (2017), the original GRI guidelines were published in 2000. Currently there are updated GRI G4 guidelines in the use, which is the latest version that was published in 2013. The purpose of the GRI guidelines is to support the companies to report on sustainability by integrating social, environmental, and economic impacts in the reporting.

2.4.2 Taskforce on Climate related Financial Disclosures

According to TCFD (2022) Taskforce on Climate related Financial Disclosures (TCFD) was first introduced by G20 in 2015 after the Paris Climate Agreement. TCFD recommendations cover the financial materiality of climate change, meaning the impact that climate change has on companies. The recommendations for disclosures include four areas: governance, strategy, risk management, and metrics and targets. Governance describes organization’s governance of climate risks and opportunities, strategy focuses on actual and potential material impacts to organization’s business, Strategy and financial planning. Risk management describes identifying, assessing and managing climate related risks, and Metrics & Targets describes the metrics and targets that are used to assess climate risks and opportunities.

2.4.3 Non-Financial Reporting Directive

European Commission (2022) describes that Non-Financial Reporting Directive is a directive where recommendations cover both financial and social and environmental material impacts of climate change. Non-Financial Reporting Directive requires large companies to publish information of environmental and social matters, human rights, anti-corruption and diversity of company boards.

2.4.4 International Integrated Reporting Council

According to IIRC (2020) the International Integrated Reporting Council (IIRC) was established in 2010 to create globally accepted integrated reporting. However, James (2015) found out in their research that currently most of the companies are still not using integrated reporting but publish separate sustainability reports, without integration to annual financial statements. One of IIRC’s goals is to develop sustainability reporting to provide more useful information for internal and external purposes. If the companies are using IIRC framework in their sustainability reporting, it is integrated with financial data and thus providing more useful information for decision makers.

As Soyka (2013) concluded in their research, the International Integrated Reporting Council (IIRC) reporting framework aims to provide information about the company especially to capital market purposes. From the banks’ and investment companies’ perspective, clients using integrated reporting are providing valuable information for credit decision making and risk management purposes. However, other stakeholder groups such as customers, suppliers and authorities should not be overlooked, as IIRC is also providing useful information for their purposes.

2.4.5 Sustainability Accounting Standards Board

According to SASB (2017), the concept of Sustainability Accounting Standards Board (SASB) originated at Harvard University when they were researching non-financial materiality and its application at an industry level. They are currently setting and developing industry specific standards for sustainability disclosures for 79 industries and 11 different sectors.

As Schooley & English (2015) stated, one of the benefits of industry specific standards is the fact that the companies can begin their sustainability reporting journey easily, since the information required is similar that is already reported to other authorities. It lowers the entry to sustainability reporting and aims to eliminate some of the reasons why companies are currently not reporting on their sustainability. As time and resources are scarce, sometimes it is easier for companies to start with information they are already collecting and build up their reporting in the future.

2.4.6 EU Taxonomy

According to EU Taxonomy (2022) the regulation defines green, sustainable, and environmentally friendly economic activities. It is a framework that aims to promote environmentally friendly business practices and technologies. EU Taxonomy will be implemented in 2022. It has the following six environmental objectives:

1) Climate change mitigation
2) Climate change adaptation
3) Sustainable use and protection of water and marine resources

4) Transition to a circular economy
5) Pollution prevention and control and
6) Protection and restoration of biodiversity and ecosystems.

3 Research framework

In this chapter, the research framework for this thesis is introduced. This chapter proceeds as follows: First the introduction to chosen methodology is presented, followed by introduction of data and analysis methods. This thesis is based on the publicly available sustainability reports of the chosen companies operating in the financial industry in Finland. The research method is qualitative research.

3.1 Qualitative research and case study

The methodology chosen for this thesis is qualitative research. Hennink, Hutter & Bailey (2011) called qualitative research a broad umbrella term that covers a range of techniques and philosophies, which is why it is not easy to define. Silverman (2005) points out that qualitative research includes collecting and analyzing non-numerical data for research purposes, such as understanding concepts, opinions, or experiences. Qualitative research method is used when smaller amounts of information is analyzed in a detailed manner to gain in-depth insights or generate new ideas for research. Qualitative research is opposed to quantitative research where statistical analysis is used to analyze numerical data.

Flick (2014) points out in their research, that there are plenty of possibilities to analyze qualitative data. One of the possibilities is to use qualitative content analysis, which in this research is used in the analyzing of the research data consisting of sustainability reports. Content analysis aims to find patterns in how concepts are communicated and understanding the intentions of individual, group or institution. Schreier (2012) notes that in qualitative content analysis, it is common to use the coding frame to recognize the central themes and topics of the data being analyzed.

The codes in this research are derived from the theoretical framework for this thesis and are listed below:

1. Environmental Social Governance
2. UN Sustainable development goals
3. Sustainability reporting
4. Sustainable business strategy
5. Strategic groups

The main benefit for choosing qualitative analysis as the research method for this thesis is the ability to provide industry specific insights. Financial industry has very different specifics compared to other industries when considering sustainability factors. The greatest impact of financial institutions is not coming from their own operations, but from their clients' operations. The sustainability strategy and risks are highly dependent on the client portfolios and the operating industries of clients. Financial institutions need to be able to set a successful sustainability strategy and manage the client portfolio sustainability risks.

Qualitative content analysis is used to understand different topics of sustainability research. It is also used for determining factors in sustainability reporting, such as the extensiveness and purpose or nature. The benefits of choosing content analysis as the analysis method is unobtrusive data collection, transparent and replicable research and the flexibility of the method. Since the data is collected without the bias of researcher presence, it does not influence the results of the research. Transparency is an important factor of reliable research and the fact that the research is easily replicable is convenient if others want to research the same subject or further develop the research on similar topic.

The downsides for choosing qualitative analysis include data collection and the lack of statistical representativeness. Content analysis downsides are a possibility of lost context, subjective interpretation, and time intensity. Focusing too much on specific words can cause losing the context around the subject. Subjective interpretation can cause data validity and reliability issues. Analyzing text can also be time consuming and difficult task to automate if the research is to be replicated.

This research is a case study. Robson (2002) defines a case study as "a strategy for doing research that involves and empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence". According to Yin (2009) the context of research and boundaries of the phenomena studied are not necessarily evident in a case study, but the application of case study as research approach helps coping with a complex phenomenon.

This research is based on secondary data, since the author collected and used existing data in form of texts (sustainability reports). This is a benefit since another researcher can replicate the research and compare results, but there is also a downside which is that this research does not provide new data for research purposes.

3.2 Data collection

The data used for this research consists of the sustainability reports of the chosen 5 largest financial institutions operating in the finance sector in Finland (Nordea, OP, Danske Bank, Kuntarahoitus and Handelsbanken). As the purpose of the research is not to perform an industry analysis, but rather to shed light to the major operator's sustainability reporting, targets and initiatives in the financial sector, these 5 financial institutions were chosen as a research group. When the research group was chosen, the next step was to recognize the correct level of information required to perform the qualitative analysis, in simple terms - which data to use?

The purpose of choosing the sustainability reports as the data for this research, is to gain an access to a relatively standardized data of the financial institutions. This provides a possibility to perform an analysis for a group of institutions rather than making a single case study, and it provides more information concerning the major operators in the financial sector in Finland. Due to timeline restrictions of this research, it was not possible to interview all the research group to gain more detailed level of data.

The sustainability reports contain both financial and non-financial information. This provides more options for choosing the method for analysis. In terms of purely financial indicators, recognizing relevant financial information in the institutions financial statements was not possible in this research, due to restrictions on timeline.

The data is collected for the years 2018-2022. This five-year time period was chosen to represent the changes and development as well as the industry trends for the sustainability reporting. As the method of this research is qualitative, any longer time period would have been too ambitious for the timeline of the research performed. On the contrary, any shorter time period would not have necessarily provided enough information for the purposes of this research.

The sustainability reports are publicly available on the chosen financial institutions' websites. There are limitations to using public information since it is provided mainly for reporting and shareholder information purposes. It is possible, that the companies want to make their efforts seem better than they are, to affect the shareholder decision making. Also, the reporting requirements can set limitations to the reported information, either by guiding the information that should be reported or dismissing possibly irrelevant but interesting information.

In conclusion, the financial institutions were chosen based on the following criteria:

1. Company is categorized as financial institution
2. Financial institution is operating in the Finnish market
3. Financial institution is considered as large institution
4. Financial institution is publicly sharing their sustainability reporting
5. Sustainability reports are available for years 2018-2022

3.3 Industry introduction

Financial institutions (e.g. including banking, insurance and investment companies) operate in a market that is highly regulated by different regulators. In Finland, the main regulators and supervisors include European Commission, European Central Bank, Finland's Bank, Basel Committee on Banking Supervision, European Banking Authority, and local Financial Supervisory Authority Finanssivalvonta. The regulators share the responsibility and cooperate to ensure the stability of financial markets (Suomen Pankki Homepage, 2021).

3.3.1 Introduction of case companies

The research group consists of five case companies – or in this case financial institutions. These are the 5 largest financial institutions operating in the financial sector in Finland (Nordea, OP Financial Group, Danske Bank, MuniFin and Handelsbanken). This research group was chosen because of their large market share, meaning that these are the financial institutions having the biggest combined influence on sustainable finance industry in Finland and with great influence comes great responsibility to environment, society and governance. Additional justification for the chosen research group is the differences in the financial institutions' business models, legal structures, and operating markets. By choosing these financial institutions, it was possible to conduct research that covers these differences. The financial institutions are introduced next.

Nordea Bank Abp is operating in 20 countries including the home market of four Nordic countries: Finland, Sweden, Norway and Denmark. Nordea's operating income in 2020 was EUR 8,466 million and total assets of EUR 552.2 billion. Nordea shares are traded in the stock exchanges in Helsinki, Stockholm and Copenhagen. Nordea has an AA-rating. Nordea has approximately 28.000 employees. Nordea's customers include 9,2 million household customers, 540.000 SMEs and 2.350 large corporate customers (Nordea Homepage, 2021).

OP Financial Group (OP) is the largest Financial Group in Finland. OP consists of 137 OP Cooperative banks and the central cooperative. which is owned by the cooperative banks. Over 2 million cooperative owners/customers own OP and OP has over 12.000 employees. OP's business consists of three business segments: retail banking, corporate banking and insurance (OP Homepage, 2021).

Danske Bank is a Nordic bank, which home markets are Denmark, Norway, Sweden and Finland. In addition, Danske bank operates in 8 other countries. Altogether Danske Bank has 3.3 million retail banking customers, over 2.327 corporate and institutional banking customers, 21.926 employees and 180 branches. Danske Bank began operating in Finland in 1887 and currently is the third largest bank (Danske Bank Homepage, 2021).

MuniFin is one of Finland's largest credit institutions with a balance sheet of total 44 billion euros. MuniFin is owned by Finnish municipalities, the public sector pension fund KeVa and the republic of Finland. MuniFin's customers are Finnish municipalities, companies owned by Finnish municipalities, municipal federations, and non-profit housing organizations. MuniFin's lending is guaranteed by Municipal Guarantee Board. MuniFin is rated as Aa1 by Moody's and AA+ by Standard & Poors (MuniFin, 2021)

Handelsbanken's home market is Sweden, the UK, Denmark, Finland, Norway and the Netherlands. Handelsbanken was founded in 1871 and currently has over 10.000 employees. Handelsbanken is one of the most cost-efficient and stable banks in Europe. Handelsbanken has a divided way of working and all decisions are made in the branch offices (Handelsbanken, 2021).

3.4 Data analysis

In the theoretical framework chapter of this thesis, key concepts and standards of sustainability, ESG, UN sustainable development goals, sustainability reporting and sustainable business strategies and strategic groups are introduced. This framework and the concepts are the basis for the data analysis.

The sustainability reports (or annual reports in the case that the companies are using integrated reporting) are analyzed to find answers to the research questions. The following aspects of the sustainability reports are considered:

1. Format of reporting (Sustainability report, Annual Report, Integrated report)
2. Terminology (CSR, Sustainability, ESG)
3. Reference to Paris agreement
4. Use of Science based targets
5. Following Global Reporting Initiative
6. Task Force for Climate Disclosures
7. UNEP FI
8. Principles of Responsible Banking
9. Socially Responsible Investments
10. Non-financial reporting directive
11. International Integrated Reporting Council
12. Sustainability Accounting Standards Board
13. EU Taxonomy

In addition to the above-mentioned aspects, also the Sustainable Development Goals (SDGs) that the case companies mention in the sustainability reports are analyzed. There are 17 different goals in total as outlined in the theoretical framework part of this Thesis.

The data is collected for each company for the 5 years, so it is possible to see the development of each case company's sustainability reporting. When put together, the data gives an industry standard of the current sustainability reporting practices in the Finnish market which is needed to answer the first research question. For answering the second research question, the companies' sustainability strategies are defined based on their sustainability reports. Companies can then be compared to each other in strategic groups. Strategic groups in this research are related to development stages of sustainability reporting in the case companies. Since this is a qualitative research, financial performance of the companies is not considered as a factor for strategic groups. Data is presented in the research findings and discussion section of this thesis, which is tied to the theoretical framework section.

4 Research findings and discussion

Research findings of this thesis are introduced and discussed in this chapter. First, the general and summarized findings of the sustainability reporting practices at case companies are presented. These findings and their meanings are then further discussed in the sections of sustainability, sustainable finance, sustainability strategy and sustainability reporting. This chapter concludes to research summary and limitations, including future research suggestions.

4.1 General findings

This section describes the general findings per case company. When the sustainability reports of the companies were analyzed, it became clear that some of the terminology used in this research is outdated. For example, the term Corporate Social Responsibility is not widely used in the financial institutions' sustainability reporting after 2019. Sustainability is currently more common umbrella term referencing to the environmental efforts of the institutions. Recently the term ESG is clearly gaining popularity.

As described in the previous chapter, one key factor for choosing these institutions was the availability of the sustainability reports. For all case companies, the sustainability reports were easily available. However, previous year's sustainability reports are difficult to find on some institutions' websites.

In Table 1 the Sustainable Development Goals of case companies are outlined. The numbers in the table describe the goal numbers (1 to 17) mentioned in each year's sustainability report. In some years, the case companies had not outlined the Sustainable Development Goals (Not mentioned) or had mentioned the goals but not described specific goals (Mentioned) in their reporting.

Table 1. Sustainable Development Goals of case companies in 2017-2021.

Sustainable Development Goals (SDGs)					
Company	**2017**	**2018**	**2019**	**2020**	**2021**
Nordea	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17	Mentioned	5, 10	4, 5, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17	4, 5, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17
Danske Bank	4, 8, 13, 14,	4, 8, 13	7, 13, 12, 2, 7, 3, 11, 9, 8, 4, 6, 16, 5, 10	13, 8, 4, 16, 5, 2, 3, 6, 10, 12	13, 2, 3, 8, 4, 6, 16, 5, 10, 12, 5
Handels-banken	5, 8, 9, 11, 13, 16,	1, 5, 8, 9, 11, 13, 16	5, 8, 9, 11, 13, 16	5, 8, 9, 11, 13, 16	3, 5, 6, 7, 8, 9, 11, 12, 13, 14, 15, 16
OP	Not men-tioned	3, 4, 5, 8, 9, 10, 11, 12, 13	Mentioned	Mentioned	3, 4, 5, 8, 9, 10, 11, 12, 13, 14, 15, 17
MuniFin	3, 4, 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, 16, 17	3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17	3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17	3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 16, 17	3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 16, 17

4.1.1 Nordea

Sustainability reporting of Nordea is summarized in Table 2. Nordea has started to use integrated reporting in 2021, before that they were publishing a separate sustainability report. In addition to their sustainability report, they also have other sustainability related reporting available (that is not considered for the purposes of this research). Overall observation on the Nordea's sustainability reporting is that there is some inconsistency how Sustainable Development Goals are reported. In 2017 report all goals are mentioned, where some are in more focus than others. In 2018 no specific goals are mentioned and in 2019 only 2 individual goals are mentioned. From 2020 forward the goals in focus are further elaborated and discussed.

Table 2. Summary of sustainability reporting of Nordea.

Nordea					
Description	**2017**	**2018**	**2019**	**2020**	**2021**
Format of reporting (Sustainability report, Annual Report, Integrated report)	SR	SR	SR	SR	IR
Terminology (CSR, Sustainability (S), ESG)	S, ESG	S, ESG	S, ESG	S, ESG	CSR, S, ESG
Reference to Paris agreement	Yes	Yes	Yes	Yes	Yes
Use of Science based targets	Mention	No	No	No	No
Following Global Reporting Initiative	Yes	Yes	Yes	Yes	Yes
Task Force for Climate Disclosures	Yes	Yes	Yes	Yes	Yes
UNEP FI	Yes	Yes	Yes	Yes	Yes
Principles of Responsible Banking	No	Yes	Yes	Yes	Yes
Socially Responsible Investments	No	No	No	No	No
Non-financial reporting directive	No	No	No	No	No
International Integrated Reporting Council	No	No	No	No	No
Sustainability Accounting Standards Board	No	No	No	No	Yes
EU Taxonomy	No	No	No	Yes	Yes

4.1.2 Danske bank

Sustainability reporting of Danske Bank is summarized in Table 3. Danske bank publishes a separate sustainability report. There is a noticeable improvement in the sustainability reporting in 2019, when they have started to reference to United Nations Environmental Programme Finance Initiative, Principles of Responsible Banking and Task force for Climate related Financial Disclosures. No information on Global Reporting Initiative standards was easily available, it was unclear why they are not mentioning if they follow the standards or if they follow another set of standards.

Table 3. Summary of Sustainability reporting of Danske Bank.

Danske bank					
Description	**2017**	**2018**	**2019**	**2020**	**2021**
Format of reporting (Sustainability report, Annual Report, Integrated report)	SR	SR	SR	SR	SR
Terminology (CSR, Sustainability (S), ESG)	CSR, S, ESG	CSR, S, ESG	S, ESG	CSR, S, ESG	S, ESG
Reference to Paris agreement	Yes	Yes	Yes	Yes	Yes
Use of Science based targets	No	No	No	No	No
Following Global Reporting Initiative	No	No	No	No	No
Task force for Climate related Financial Disclosures	No	No	Yes	Yes	Yes
UNEP FI	Yes	No	Yes	Yes	Yes
Principles of Responsible Banking	No	No	Yes	Yes	Yes
Socially Responsible Investments	No	No	No	No	No
Non-financial reporting directive	No	No	No	No	Yes
International Integrated Reporting Council	No	No	No	No	No
Sustainability Accounting Standards Board	No	No	No	Yes	Yes
EU Taxonomy	No	No	No	Yes	Yes

4.1.3 Handelsbanken

Sustainability reporting of Handelsbanken is summarized in Table 4. Handelsbanken has used integrated report since 2020 and prior that they were publishing a separate sustainability report. Overall impressions on the sustainability reporting are that in some reports the sustainable development goals are not in order and same goal is mentioned multiple times in different places of the report. Also, sub-goals are included. Handelsbanken was the only bank where the Socially Responsible Investments are mentioned, but only in relation to SRI SIX index in Sweden.

Table 4. Summary of sustainability reporting of Handelsbanken.

Handelsbanken					
Description	**2017**	**2018**	**2019**	**2020**	**2021**
Format of reporting (Sustainability report, Annual Report, Integrated report)	SR	SR	SR	AR	AR
Terminology (CSR, Sustainability (S), ESG)	CSR, S, ESG	CSR, S, ESG	CSR, S, ESG	CSR, S, ESG	S, ESG
Reference to Paris agreement	No	Yes	Yes	Yes	Yes
Use of Science based targets	No	No	No	Mentioned	Yes
Following Global Reporting Initiative	Yes	Yes	Yes	Yes	Yes
Task force for Climate related Financial Disclosures	Yes	Yes	Yes	Yes	Yes
UNEP FI	Yes	Yes	Yes	Yes	Yes
Principles of Responsible Banking	No	No	Yes	Yes	Yes
Socially Responsible Investments	Yes	Yes	No	No	No
Non-financial reporting directive	No	No	No	No	Yes
International Integrated Reporting Council	No	No	No	No	No

Sustainability Accounting Standards Board	No	No	No	No	No
EU Taxonomy	No	No	No	Men-tioned	Yes

4.1.4 OP

Sustainability reporting of OP is summarized in Table 5. OP has integrated their sustainability report to annual reporting since 2018, before that it was published as a separate report. OP's annual report is available only in Finnish and thus analyzed in Finnish. The terminology used in this research was translated from English to Finnish (e.g., corporate social responsibility corresponding word "yritysvastuu" and sustainability "vastuullisuus" was used). Overall impression on the reporting of sustainable development goals is inconsistent and there is room for improvement.

Table 5. Summary of sustainability reporting of OP.

OP					
Description	**2017**	**2018**	**2019**	**2020**	**2021**
Format of reporting (Sustainability report, Annual Report, Integrated report)	IR	AR	AR	AR	AR
Terminology (CSR, Sustainability (S), ESG)	CSR, S, ESG	CSR, S, ESG	CSR, S, ESG	CSR, S, ESG	CSR, S, ESG
Reference to Paris agreement	No	No	Yes	Yes	Yes
Use of Science based targets	No	No	No	Men-tioned	Men-tioned
Following Global Reporting Initiative	Yes	Yes	Yes	Yes	Yes
Task force for Climate related Financial Disclosures	No	No	Yes	Yes	Yes

UNEP FI	No	No	Yes	Yes	Yes
Principles of Responsible Banking	No	No	Yes	Yes	Yes
Socially Responsible Investments	No	No	No	No	No
Non-financial reporting directive	No	No	No	No	No
International Integrated Reporting Council	Yes	Yes	Yes	No	No
Sustainability Accounting Standards Board	No	No	No	No	No
EU Taxonomy	No	No	No	No	No

4.1.5 MuniFin

Sustainability reporting of MuniFin is summarized in Table 6. MuniFin has included their sustainability report to annual reporting since 2021, before that they were publishing a separate sustainability report. One curiosity in their reporting is that there is no reference to the Paris agreement, which is the basis for all the climate actions taken at companies. They have followed the GRI standards for all the years, but they are not mentioning anything about UN Environmental Programme Finance Initiative or the task forces.

Table 6. Summary of sustainability reporting of MuniFin.

MuniFin					
Description	**2017**	**2018**	**2019**	**2020**	**2021**
Format of reporting (Sustainability report, Annual Report, Integrated report)	SR	SR	SR	SR	AR
Terminology (CSR, Sustainability (S), ESG)	CSR, S, ESG	CSR, S, ESG	CSR, S, ESG	CSR, S, ESG	CSR, S, ESG
Reference to Paris agreement	No	No	No	No	No
Use of Science based targets	No	No	No	No	No

Following Global Reporting Initiative	Yes	Yes	Yes	Yes	Yes
Task force for Climate related Financial Disclosures	No	No	No	No	No
UNEP FI	No	No	No	No	No
Principles of Responsible Banking	No	No	No	No	No
Socially Responsible Investments	Yes	Yes	Yes	Yes	Yes
Non-financial reporting directive	Yes	No	No	Yes	Yes
International Integrated Reporting Council	No	No	No	No	No
Sustainability Accounting Standards Board	No	No	No	No	No
EU Taxonomy	No	No	No	Yes	Yes

4.2 Sustainability

Sustainability reporting of the case companies has developed through the analyzed 5 years. As discussed in the theoretical framework of this thesis, Corporate Social Responsibility was one of the early definitions of sustainable development in companies. In the case companies' sustainability reporting, the use of term CSR has significantly decreased over the 5 years. On the other hand, term sustainability is more commonly used in the recent reports. Environmental Social Governance was also used more in the more recent years reporting in all companies. Overall Sustainability seems to be the current umbrella term for describing the environmental, societal and governance aspects of companies' operations.

Why does it matter what terminology is used in the reporting? As described in the theoretical framework of the thesis, all these terms mean roughly the same thing but not entirely. Carroll (1979) defined CSR as "The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time". Brundtland report (1987) defined sustainability as "meeting the needs of the present generation without compromising the ability of future generations to meet their needs". The Global Compact (2004) of United Nations defined Environmental Social Governance (ESG) and the definition includes many more aspects than CSR or sustainability. The terminology that case companies use in their sustainability reporting thus reflects how sustainability is understood in their company.

Paris agreement is the commitment of countries to take responsibility on the pressing climate topics. In the case companies' sustainability reporting for most of the years majority of companies mentioned Paris agreement when discussing their sustainability agendas. MuniFin did not mention Paris agreement on any of their sustainability reports. As Paris agreement is the basis for all climate goals in companies, the expectation is that it would also be communicated in the external reporting.

All case companies' sustainability reports included UN Sustainable development goals, however there are many differences in the reporting of the goals. Majority of companies have increased the number of different goals in their reporting through the years and tied their climate actions to the SDGs. However, the manner of how the goals were reported was not in all cases clear and through the years there was different levels of incorporation. Overall analysis is that the goals should be reported consistently and in a clear manner.

Science Based Targets were rarely mentioned in the sustainability reports, mainly for 2020 and 2021 in OP and Handelsbanken reports. Other case companies did not mention Science based targets in their sustainability reports, although some reports, for example Nordea in 2021 did mention the Scope 1, 2 and 3 targets. As Science Based Targets is an initiative to help companies standardize the way of reporting on their emissions, this is perhaps something that could be improved in the industry.

4.3 Sustainable finance

United Nations Environmental Programme Finance Initiative (UNEP FI) was the most mentioned sustainable finance specific topic in the sustainability reports of the case companies. This follows a logic, since UNEP FI is the group setting up other sustainable finance frameworks such as Principles of Responsible Banking, which is discussed briefly in the next passage. In their sustainability reporting Handelsbanken and Nordea stayed consistent and referred to UNEP FI for all analyzed years. OP and Danske Bank referred to UNEP FI since 2019 and MuniFin does not refer to the initiative at all. MuniFin does not refer to all the industry standards, because of its unique position in the markets. As mentioned in the research framework chapter, MuniFin is backed up by the Finnish state, which means in practical terms that they can’t go bankrupt.

Principles for Responsible Banking (PRB) was referred by OP, Danske Bank and Handelsbanken since 2019. Nordea referred to PRB already 2018 and MuniFin did not refer to the principles at all. On the other hand, MuniFin did refer to Socially Responsible Investments through all 5 years, where other banks did not refer to the framework at all. Handelsbanken mentioned SRI, but only in relation to SRI SIX index in Sweden.

4.4 Sustainable strategy

In theoretical framework chapter of this thesis, Orsato’s (2003) 4 competitive environmental strategies were presented: Eco-Efficiency, Beyond Compliance Leadership, Eco-Branding and Environmental Cost Leadership. When analyzing the companies’ sustainability reports, it was possible to divide the case companies to two competitive environmental strategies. This is shown in Figure 2.

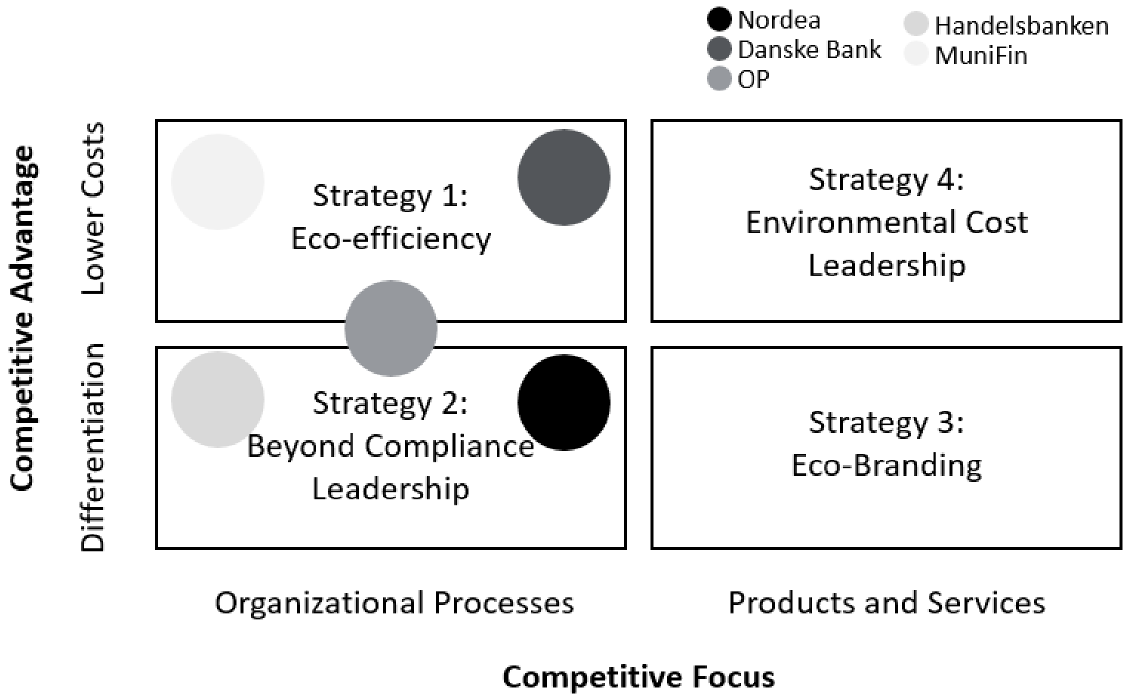

Figure 3. Competitive strategies in Orsato's matrix.

As Hoffmann & Woody (2008) introduced in their research, the frameworks, markets and competitors are already changing in response to climate change, and the strategic planning of the companies is in the focus of addressing these climate change factors in business decision making. Increased requirements and regulatory development are changing the markets by the application of taxonomy and new standards. Nordea and Handelsbanken were quick to implement new standards and referred to relevant topics in sustainability, so their strategy is based on beyond compliance leadership. This strategy can provide them first mover advantages. OP is between these two strategies, as they have implemented integrated reporting before other companies, but they still lack many of the basic frameworks and guidelines that Nordea and Handelsbanken already follow.

The 4 strategies are in two dimensions: competitive advantage, and competitive focus. For competitive advantage there are two options, lower costs, or differentiation. As Kolk & Pinkse (2004) described, most of the companies are focusing on taking internal measures, such as decreasing their energy usage, while the companies should also consider their product development and include supply chains in their climate strategies.

MuniFin and Danske bank were not as mature in their sustainability reporting as other companies, and their focus was on decreasing costs and environmental impacts. Their strategy is thus based on eco-efficiency. For competitive focus, there are two options, organizational processes or products and services. All case companies were on organizational processes category.

Porter (1979) stated that the companies form strategic groups within the industry. In the companies belonging to the same strategic group, decisions are made according to similar principles and the purpose for the strategic groups is to help recognize the company's position in the industry. For the purposes of this research, case companies were divided to strategic groups as show in Figure 4. The dimensions chosen for this research are implementation of new frameworks and guidelines and comprehensiveness of sustainability reporting. Size of the groups was not considered as all companies are large financial institutions operating in the financial industry.

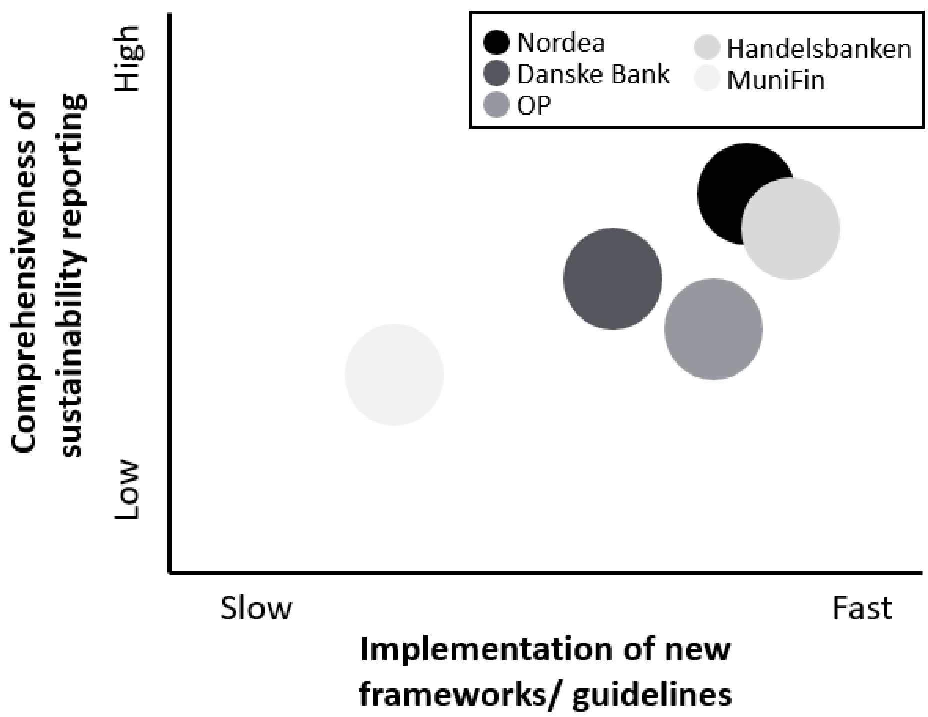

Figure 4. Strategic groups by sustainability reporting.

As described in the section of general findings, MuniFin differs from the other case companies in terms of sustainability reporting. They are relatively slow to implement new regulations and do not comply with all regulations they are following (GRI standards). As OP is the only company doing integrated reporting for all years, it is quick to implement new frameworks but overall, their sustainability reports were not that comprehensive. Danske Bank on the other hand are including more things in their sustainability reports, but overall, they are a bit behind on their reporting compared to Nordea and Handelsbanken. Nordea has more comprehensive reporting, but Handelsbanken is quicker to implement new guidelines and frameworks.

4.5 Sustainability reporting

Global Reporting Initiative standards are followed by Nordea, OP, Handelsbanken and MuniFin, although in their most recent report from 2021 MuniFin mentioned that they do not fulfill all the criteria. Danske Bank does not follow Global Reporting Initiative and it remains unclear if they follow another standard instead. As mentioned in the theoretical framework of this thesis, Global Reporting Initiative standards have gained a lot of popularity among Finnish companies. Thus, it was expected that majority of banks follow these standards.

Task Force for Climate Related Disclosures (TFCD) was mentioned in all of Nordea's and Handelsbanken's sustainability reports. OP and Danske Bank mentioned Task Force for Climate related Disclosures for all reports after 2019, and MuniFin did not refer to the TFCD in their reporting. Taskforce on Climate related Financial Disclosures (TCFD) was introduced in 2015 and TCFD recommendations cover the financial materiality of climate change, meaning the impact that climate change has on companies.

Danske Bank and OP referred to the Non-financial Reporting Directive (NFRD) in their most recent sustainability reports. Handelsbanken and Nordea did not refer to NFRD in their reporting. MuniFin did refer to NFRD in the 2017, 2020 and 2021 reporting.

OP was the only company referring to International Integrated Reporting Directives, and that was only the years 2017-2019. This is in line with the findings of James (2015), who found out in their research that currently most of the companies are still not using integrated reporting but publish separate sustainability reports, without integration to annual financial statements. OP is the only company who had integrated their sustainability reporting for all the analyzed years 2017-2021. Integrated reporting can provide useful data for decision makers.

Nordea and Danske bank are only companies that referred to Sustainability Accounting standards Board. This was only in the recent years, Nordea in 2021 and Danske Bank in 2020 and 2021. As according to SASB (2017), Sustainability Accounting Standards Board (SASB) originated at Harvard University, and they are currently setting and developing industry specific standards for sustainability disclosures for 79 industries and 11 different sectors. As Nordea and Danske bank are operating in the Nordic markets, it is reasonable that they are mentioning SASB standards as well.

EU Taxonomy was referred in 2020 and 2021 by all other companies besides OP. Since this is a recent regulation, it reasons that the companies have started to refer to it only in the 2020 and 2021. However, it is unclear why OP does not mention EU Taxonomy in their reports, even though it is the major regulation that is being implemented in the recent years.

4.6 Summary, discussion, and limitations

This thesis describes the development of sustainability reporting and sustainable strategies in the financial industry in Finland from the perspective of 5 largest companies. Financial industry is a key player in the sustainable transformation towards climate neutrality. There is a major difference in the perspective of sustainability on the financial industry and other industries. The sustainability risks and opportunities of financial institutions are not coming from their own operations as such, but the biggest impacts are coming through the selection of their customers.

As described in the theoretical framework of this thesis, Pesonen (2007) found in their research that integrating climate related activities can add value to the company. This can be measured for example by increased operational efficiency, increased regulatory compliance, successful risk management, growth in the market, new innovations, and finally to new business concepts. When the companies are successfully integrating sustainability factors in their strategy, the value creation model of the company might change and lead to increased profitability in the future.

Future profits are reason enough to integrate sustainability activities to operations. However, Lozanoa & Huisinghb (2011) noted in their research that sustainability reporting has been a voluntary practice, but the pressure from regulators and stakeholders is increasing and more companies are reporting on their sustainability. As there are several different guidelines and standards, it is possible for the companies to choose which ones they want to follow.

This thesis aims to answer the following research questions:

1. *What are the current industry standards for sustainability regulation and reporting in financial industry?*
2. *What sustainable strategies the financial institutions are following?*

The purpose of the first research question is to examine the industry standards and current level of the companies' sustainability reporting. By understanding the industry standards, it is then possible to look at the second research question, where the companies can be categorized according to their sustainability strategies.

The methodology chosen for this thesis is qualitative research, more specifically qualitative content analysis. Qualitative content analysis is often used to understand different topics of sustainability research. It is also used for determining factors in sustainability reporting, such as the extensiveness and purpose or nature. The benefits of choosing content analysis as the analysis method is unobtrusive data collection, transparent and replicable research, and the flexibility of the method. This research is a case study of the chosen financial institutions.

Data for this research is collected from the publicly available sustainability reports and categorized and analyzed by the researcher. Data was collected for five years in 2017-2021.

Analysis part of this thesis aims to answer the research questions. For first question about the current industry standards, it is noted that there is a change in the year 2021 towards integrated sustainability reporting in Annual report. Implementing integrated reporting will help deliver information about sustainability for shareholders and other stakeholder purposes. There are differences in what sustainability reporting standards the companies follow, however majority follows GRI standards. The terminology has changed from CSR to Sustainability. Most of the companies talk about UNEP FI Sustainable Development Goals and tie their sustainability goals to them.

For the second research question, all companies are currently following Eco-efficiency or Beyond Compliance sustainability strategies. This means that the companies have not yet embedded sustainability in their products and services in a large scale. The strategic groups regarding sustainability framework and guideline implementation and comprehensiveness of their current reporting did not include major differences between companies. Since MuniFin is a bit different player in the markets, their development in the reporting has been a little slower than other companies.

The research results are aligned with previous research in the topic, however there can be observed some development to banks advancing in their sustainability practices. As stated in the research of Hunt and Auster (1990) banks are often in the beginner category of their classifications, which means that responsibility of sustainability is added to the existing positions or not addressed at all. According to this research, there has been development in the financial institution's sustainability practices after their research and not all banks are doing the bare minimum effort. This positive development could possibly be due to increased regulation and required reporting.

Hahn & Scheermesser (2006) categorized companies to three different groups: sustainability leaders, environmentalists and lastly traditionalists, where traditionalists view sustainability through law and regulations and are motivated by traditional business goals (revenue, opportunities and positive image). Based on this research it could be argued that financial institutions are driven on sustainability topics because of the increased regulation. If they would like to move to the next group of environmentalists, the banks need to implement more social measures to their business.

In the research of Toppinen et al. (2012) companies were divided to three strategic groups based on their approach to GRI reporting: defensive, proactive and "stuck-in-middle" approaches. The results of this research suggest that banks are stuck-in-middle approach, as they have not yet recognized the full potential of sustainability in their business. As stated above, there is potential in sustainable strategies also in the terms of increased profit. This potential has not yet been fully materialized and there is room for exploring new opportunities in the market. For example, funding the transition of companies' current business models to sustainable business models leaves a gap for the financial institutions to fill in the market. As always, first movers have an opportunity to gain competitive advantage when expanding their business before their competitors.

Financial institutions are a key player in sustainable development and the regulators know this, as we can see with the increased regulations in the sustainability area. Banks are expected to know their customers and provide this information to regulators, so they can make informed decisions based on data. Currently the environmental factors are in the focus due to climate crisis and social and governance related factors have been with less focus due to lower levels of urgency.

Based on this research, there is room for improvement of the sustainable business strategies of the financial institutions in the Finnish market. The strategies are still heavily driven by regulation and cost focus, where the opportunities for new products are not yet fully explored. In practice, this could mean increased focus on their sustainability strategies and practices, looking beyond the environmental factors and embedding also the social and governance perspectives in their operations.

As with all research, also this thesis has its limitations. The first limitation of this research is the chosen group of financial institutions. The data is representing only 5 largest financial Institutions and thus might not represent the entire industry including mid-sized and smaller banks. For example, larger institutions might be faster to adopt and follow global guidelines than smaller ones.

Second, the chosen financial institutions are operating in Finland, so the results do not necessarily apply to markets in other countries. Financial industry in Finland is not extensive market and has limitations due to small population of Finland. Third, the research method is qualitative research, so there is a possibility of differences in interpretations if duplicating the research. For future research purposes, it might be beneficial to include other markets and research methods to broaden the scope.

Next, the data was collected for 5 years and thus the development and scope of the sustainability reporting is not entirely captured. Finally, the data included only the sustainability reports of the companies, other separate sustainability related documents, such as human right publications, were not included in this research.

For future research purposes, it might be beneficial to include other markets and research methods to broaden the scope. Broadening the scope could be including the entire time span from Paris agreement in 2015 to current date would give a fair impression on how the sustainability reporting has developed through the years in Finland. This research does not discuss the EU Taxonomy from a broader perspective, but this could be done in future research. Adding EU Green Deal to the scope would bring concreteness to climate agreement perspective if future research is done in the EU area.

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Appendices

Appendix 1. List of abbreviations

Abbreviation	Description
BCBS	Basel Committee on Banking Supervision
CSR	Corporate Social Responsibility
EBA	European Banking Authority
ECB	European Central Bank
ESG	Environmental Social Governance
FiVa	FinanssiValvonta
FSA	Financial Supervision Authority
PRB	Principles for Responsible Banking
PRI	Principles for Responsible Investing
SASB	Sustainability Accounting Standards Board
SRI	Socially Responsible Investing
SBT	Science Based Targets
SBTi	Science Based Targets initiative
SDG	Sustainable Development Goals
UN	United Nations
UNEP FI	United Nations Environment Programme Finance Initiative