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**EVIDENCE OF SUSTAINABLE VALUE CREATION AND INTEGRATED THINKING IN
FINNISH MEDIUM SIZED ENTERPRISES**

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Abstract			
<p>The consequences of severe environmental and social challenges such as climate change, resource scarcity and exponential population growth are already met by millions of people globally on a regular basis. The growing awareness and demand for actions on these risks have resulted in an emerging consensus towards a stronger engagement of private organizations in mitigating negative externalities and providing solutions through fostering sustainable business operations.</p> <p>To better understand the role of private organizations in addressing sustainability issues, this research explores the phenomenon of sustainable value creation and integrated thinking in Finnish medium sized enterprises. These concepts are established on the consideration of factors such as integration of sustainability into business model, long term orientation in business as well as use of multiple capitals in decision making and company operations.</p> <p>The data is collected through a survey for company executives as well as theme interviews for company executives and private equity firm representatives. By using data triangulation, the research aims for a more comprehensive understanding of the phenomenon formed through the company executive perceptions of sustainability practices within their own organization as well as the investor perceptions of sustainability as a factor potentially affecting the firm value and attractiveness as an investment.</p> <p>The results indicate the existence of the selected phenomenon on some level by providing evidence of for instance integrated business models, emphasis on long term approach as well as the ability to identify opportunities rising from sustainability in business, such as competitive advantage, long term cost savings and enhanced level of trust expressed by stakeholders. In addition, the investor perceptions indicate that sustainability increases the attractiveness of an investment through long term viability and new business opportunities once the business also has a solid potential for profit generation.</p> <p>The research participants also recognize sustainability in business as a growing trend. In today's world, leaving sustainability out of considerations may expose an organization to a variety of risks and hence the research encourages the management to carefully consider the business potential arising from profound engagement to sustainability.</p>			
Keywords Sustainability, sustainable value creation, integrated thinking, medium sized enterprises			
Additional information			

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1 INTRODUCTION

1.1 Introduction to the research area

The megatrends of climate change and resource scarcity are already constantly setting challenges to the human population globally through for instance extreme weather conditions, loss of species as well as the scarcity of water. By affecting already to the lives of millions of people on a daily basis, they serve as factors driving the growing awareness and demand for actions related to the environmental and social concerns our planet is facing. Whereas the need to address these issues is becoming increasingly more evident, an emerging consensus related to a stronger engagement of businesses in taking part to producing public goods and mitigating negative externalities can be perceived (Knauer & Serafeim 2014). Businesses are expected to solve problems related to issues such as poverty, climate change and social inequality. These expectations are already visible in consumer choices and employment preferences as well as in the increasing number of related laws and regulations. These factors create growing economic incentives for companies to enhance their non-financial performance. For instance United Nations, World Bank and European Union all have made alignments that emphasize the role of private companies in generating growth and development and lifting people out of poverty. Although for-profit organizations should not be considered as replacements of development co-operation, their power to change the society should not be underestimated but encouraged.

To explore the role of private organizations in addressing sustainability issues, this research focuses on seeking evidence of sustainable business performance in Finnish medium sized enterprises through using a theoretical framework with a primary focus on sustainable value creation and integrated thinking. These concepts emphasize integration of sustainability into business model, long term orientation as well as use and consideration of broader set of capitals than financial. By focusing on sustainability as an integrated element as well as organizations' commitment to sustainable value creation the research seeks to shift the orientation from sustainability perceived as voluntary add-on activities into a factor that allows companies to enhance their business performance, competitive advantage and

ultimately, also opportunities for profit generation. Such an approach is sometimes also referred for instance as business driven sustainability due to its objective to drive sustainability agenda that is relevant to the strategy and objectives of the organization and generates a positive effect on their business performance as a whole. This research is conducted in collaboration with EY Finland from which it has received advisory support as well as the access to use the tools EY Finland has.

1.2 Research gap and research objectives

1.2.1 Research gap and selection of the target groups

The value of intangible assets is on the path of constant growth, being already over 80% of the total value of S&P 500 companies (CGMA 2014). Intangible resources are argued to influence company success more than tangible ones (Halme & Korpela 2014) and also described as the driving force in value creation in modern economy (Demartini, Paoloni & Paoloni 2015). The existing literature demonstrates a growing interest into the area of sustainability within business (see e.g. Sharma & Ruud 2003; Moore & Manring 2009; Sitra 2013; Yo & Zhao 2015; Chandler 2016). Although the issue is highly critical for societies, the environmental and social responsibility of small and medium sized enterprises can still be considered as an understudied area (Moore & Spence 2006). The sustainability focus has long been on sustainability reporting as a tool for managing reputation for large companies, whereas now the focus is shifting to strategic agility in which sustainability is an integral part of all business and profit generation (Sitra 2013). Most of the corporate sustainability research is currently focused on large enterprises that are considered to have the most resources and influence into our societies globally. However, as small and medium sized companies are in general perceived more agile than large ones (Sitra 2013; Halme & Korpela 2014), a great potential lies within their ability to utilize sustainability aspects as a part of their businesses effectively. Since small and medium sized enterprises form the large majority of all the business globally (Moore & Manring 2009), their contribution to the major sustainability challenges has a remarkable total effect. The research expands understanding of the concept of integrated thinking in practice, around which the amount of existing research still remains relatively low (Churet and Eccles 2014; Knauer and Serafeim 2014; Vesty et

al. 2015). Further description of the research gap is provided in the chapter 2.5 which explores the role and significance of sustainability in medium sized enterprises in more detail.

According to Davis (1971), interesting theories are those that deny certain assumptions their audience holds instead of affirming them. In the light of this argument, this research seeks the possibility to revise the assumption of *due to e.g. limited resources, medium sized enterprises often focus extensively on short term financial value-creation* and offers a contribution stating that *medium sized enterprises can create sustainable long-term value and contribute to the surrounding society through engaging to practices giving evidence on sustainable value creation and integrated thinking*.

The research has two target groups from which the final sample is being formed. The executives in Finnish medium sized enterprises are selected due to their ability to address the sustainability related issues in medium sized enterprises through their own personal experience in the context of their company. In addition to seeking evidence on sustainable value creation and integrated thinking, the research aims to understand whether company executives consider sustainable approach to have the potential to improve their overall business performance. The other target group of the research is representatives in private equity firms investing in Finnish medium sized enterprises. Whereas many companies of this size have the potential for growth and internationalization, they might require external financing and consulting to execute these objectives successfully. Therefore, looking into the potential sustainability might have in terms of attracting investment can be considered relevant in understanding the selected phenomenon. By selecting the private equity firm representatives as the other target group, the research aims to complement the understanding of sustainable value creation and integrated thinking in Finnish medium sized enterprises through using also a source external to the companies.

1.2.2 Research objectives

The main objective of this research is to shed light on the sustainability practices in Finnish medium sized enterprises through the concepts of sustainable value creation

and integrated thinking. The emphasis is also placed on examining whether sustainability is an integrated part of the business and whether such an integration and sustainable value creation can result in enhanced business performance. The subject of the research is also approached from the viewpoint of investments to complement the results through including an external assessment on whether sustainability in business can have a positive impact on the firm value and attractiveness as an investment. This assessment has the potential to enhance the reliability of the results as the possible advantages of sustainability can be perceived from two viewpoints.

1.3 Research questions and methodology

The research is based on phenomenological research strategy that places the focus on describing the common meaning of a concept or a phenomenon through exploring the lived experiences of several individuals (Creswell 1998: 51-55). The phenomenon this research examines is *sustainable value creation and integrated thinking in Finnish medium sized enterprises*. The methodology of this research, including phenomenological strategy, is described in detail in the third chapter.

The research will ultimately seek answers to two research questions that are formed in a way that supports the objective of creating a deeper understanding of the selected phenomenon. The primary research question of the study is set as follows

What kinds of evidence on sustainable value creation and integrated thinking can be found in the selected Finnish medium sized enterprises and how are they perceived to contribute to the overall company performance?

The secondary research question of the study is set as follows

Within the selected private equity firms investing in Finnish medium sized enterprises, how does investment targets' sustainability performance affect the firm value and attractiveness as an investment?

To support the phenomenological approach, the research questions are rather descriptive, asking *how* instead of placing exclusive options. By using data triangulation which refers to the comparison and co-analysis of the data collected from different sources (Hirsjärvi & Hurme 2008: 38-40), the research aims to create a more comprehensive understanding of the phenomenon through incorporating different views into one.

1.4 Structure of the research

The remainder of the research is structured as follows. The next chapter describes the theoretical framework of the study through drawing on the existing literature around the area. The most critical concepts include integrated thinking, sustainable value creation and corporate social responsibility. In addition, the role of sustainability in medium sized enterprises and as a factor determining firm value are discussed. The third chapter explains the methodology of the research and research design. Research design consists of three parts, including the selection of target groups and the final sample, data collection methods and process as well as a description of the data analysis. This part is followed by a chapter presenting the findings of the research. The findings are categorized in four main concepts, each of them having also further sub-concepts. The fifth chapter discusses the research briefly through analysing the methods used and considering the validity and reliability of the results gained with the selected research design. The last chapter summarizes the research and presents the theoretical and managerial implications. The research ends with considerations on the possible limitations as well as with propositions for future research. The questionnaire form as well as the interview bodies are found in the Appendix 1.

2 LITERATURE REVIEW

2.1 Corporate social responsibility

Corporate social responsibility (CSR) can be considered to cover the relationship between corporations and the societies they interact with. The concept also includes the responsibilities that are seen as inherent on both sides. CSR aims to include all stakeholder groups with an on-going interest in the firm's operations and defines society on many levels and in its widest sense. Thus, CSR can be defined as "a responsibility among firms to meet the needs of their stakeholders and a responsibility among stakeholders to hold firms to account for their actions". (Chandler 2016: 63-64). However, there are various ways to define corporate social responsibility. For instance McWilliams, Siegel and Wright (2005) define it as "situations where the firm goes beyond the interests of the firm and that which is required by law" and Renneboog, Horst and Zhang (2008) as a sum of environmental efficiency, good corporate governance and good stakeholder relations. Their approach emphasises the importance of protecting all stakeholders' interests including environmental stakeholders, shareholders and other stakeholders such as employees and the communities. In addition, CSR also has a close linkage to some other terms such as the concept of sustainability, which most people today relate to issues considering the natural environment. The rather widely accepted definition for sustainability is formed around the idea of sustainable development, defining it as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Chandler 2016: 426).

As noted, addressing those internal and external stakeholder concerns related to the company's goals and operations lies at the heart of strategic corporate social responsibility. Having a stakeholder perspective allows the firm to predict and respond to the constantly changing interests of their stakeholders who play a role in defining the environment the firm operates in. Thus, CSR can be viewed central in conducting successful business. Currently CSR is becoming increasingly significant to business success since it offers companies a mission and strategy that their stakeholders can share. The growing stakeholder awareness on sustainability issues has led progressive firms to integrate CSR into their strategic planning and everyday

operations which then allows them to secure market share and gain competitive differentiation value. CSR addresses the full range of economic, legal, ethical and discretionary actions that have an effect on the economic performance of a firm and allows executives to address stakeholder concerns in such a way that enables providing strategic benefit for the firm. Thus, CSR should not address those concerns that are not related to the company operations but instead those that have a close link to their plans and actions. The solutions to such issues are what define a successful execution of CSR policy. Through considering the relation to company operations it is possible to move forward towards the concept of strategic CSR, which refers to the inclusion of a holistic CSR perspective within a firm's strategic planning and core operations to enable managing the interests of stakeholders and thus optimize value over the medium to long term. In defining what strategic CSR really is one must ensure that a CSR perspective is incorporated into the strategic planning process, all actions taken are linked to core operations, understanding and responding to stakeholder needs is considered, value created is optimized and a short-term perspective in managing resources and stakeholder relations is abandoned for a medium to long term perspective. (Chandler 2016: 150, 87, 378, 92, 68.)

An important consideration in relation to strategic CSR perspective is the understanding of CSR not only as a tool for avoiding potential threats but also as a tool offering a great potential and opportunities for competitive advantage and differentiation. However, a significant notion is that strategic CSR is not about demanding companies to expand their goals from profit generation as this is not where the possible problems are found. Instead, the approach encourages the firms to consider the methods used for achieving the profit, in other words how the profit is created. If these practices lie on an unhealthy foundation, some companies might receive short term advantages whereas the ultimate costs are carried by the whole society. (Chandler 2016: 377 – 380.) According to Demartini et al. (2015), by applying CSR and/or sustainability management a large variety of companies have performed efforts towards wide value creation processes that provide benefits for various stakeholder groups as well as the whole community in which the firm operates. CSR can further value creation in an organization also in other ways; the literature on corporate governance provides constantly more evidence on the successful implementation of CSR in the board composition through for example

diversity management and minority shareholders. This is identified as a source for company growth and value creation (Carlucci & Schiuma 2011; Schiuma & Carlucci 2007).

2.2 Sustainable value creation

Value creation can refer to “the generation of a perceived benefit for an individual or group, as defined by that individual or group” whereas in its most simple form, strategic CSR is about conducting all business operations of a company in a responsible manner through incorporating this perspective into strategic planning in a way that increases the company’s ability to optimize value. This enables shifting the focus to long-term added value and building of truly sustainable competitive advantage. Instead of maximizing profit with a short term focus, the company engages to profit optimization by emphasizing the needs of their stakeholders over the medium to long term. Thus, it can be stated that strategic CSR equals the sustainable value creation in today’s complex and dynamic business environment. Companies that actively practice responsible behaviours from a strategic perspective have the ability to create more value over a longer time period than those who ignore the strategic benefits of CSR or do not understand them. (Chandler 2016: 480 – 487.)

Although the main responsibility of companies can be considered as generating profits, their contribution to socio-environmental development through integration of sustainability into their core business as a strategic investment is a factor resulting in better legal compliance as well as improved investments into human capital, stakeholder relations and environment. In such a context, involving and rewarding stakeholders with resources relevant to the firm’s success is a prerequisite to sustainable value creation. (Ciasullo & Troisi 2012.) Thus, besides achieving organizational objectives companies need to improve human and social welfare and reduce their ecological footprint to achieve sustainable value creation (Sharma & Ruud 2003). Corporate sustainability (CS) can be seen to shape environmental and socio-economic policies both for corporate sustainable development and for sustainable development in the society as a whole (Ciasullo & Troisi). Sustainable value creation can be considered as the result of dynamic interaction shaped by values resulting in responsible action and governance skills. Further, these improve

relevant stakeholder relations and create a CS-oriented vision and values. Thus, value creation can be considered being related to the ability to collect and share critical resources and create and nurture trustworthy relations (Ciasullo & Troisi). Elke and Bos-Brouwers (2010) argue that companies with integrated sustainability in their innovation and orientation processes show value creation within the development of new products to the market as well as cooperation with stakeholders.

2.3 Integrated thinking

Integrated thinking can be defined as the capacity for senior management to constructively manage the balance between corporate efficiency and societal health and well-being on a larger scale (IIRC 2013; Churet & Eccles 2014; Knauer & Serafeim 2014; Vesty, Brooks & Oliver 2015). Thus, it offers a solid platform for considering the ecological and social concerns modern companies face. Churet and Eccles argue for the possibility of measuring integrated thinking in terms of corporate attention to environmental, social and sustainability governance (ESG) through suggesting that the greater the attention to ESG by the senior management of a corporation, the better the company's ability to "manage sustainability issues on a strategic level and in their daily operations". They suggest that integrated thinking should foster integrated decision-making and value creation that take place over the short, medium and long term. This provides a contrast to the traditional decision-making based extensively on financial reporting which is often recognized as being quite narrowly focused on value creation in the short term to deliver financial results for the shareholders. According to Knauer and Serafeim (2014), integrated thinking has the goal of delivering sustainable profitability through the systematic management of all the forms of corporate capital. Reporting company's performance and other prospects in an integrated way is a tool helping to demonstrate management commitment to a sustainable and responsible way of operating. Similarly, Vesty et al. suggest that integrated thinking can be observed through the commitment senior management has towards including the broader set of capitals in decisions related to for instance performance evaluation and resource allocation.

Integrated thinking is originally a product of integrated reporting by the International Integrated Reporting Council (IIRC), which describes it as combining the different

value streams associated with the different capital groups of a company in order to tell a relational performance story. The IIRC defines integrated thinking as the “active consideration” of all forms of capitals – manufactured, intellectual, human, natural, social and relationship as well as financial. However, instead of considering them as separate units, the power of integrated thinking actually lies in its nature of further exploring the interrelatedness and dependencies between them throughout their flow from organizational inputs to the transformation to outputs and outcomes (IIRC 2013). The following subchapters focus on integrated thinking more thoroughly by discussing some of the key themes related to the concept.

2.3.1 Multiple capitals and business model

King and Roberts (2013 via Oliver, Vesty & Brooks 2016) use the term “the head of the octopus” to describe integrated thinking due to its ability to bring together multiple capitals. As listed above, the IIRC (2013) recognizes six different types of capitals relevant for organizations. Financial capital refers to the pool of funds available to an organization for use and obtained through financing. Manufactured capital includes all manufactured physical objects available for the organization such as buildings, equipment and infrastructure. Intellectual capital relates to knowledge-based intangibles such as intellectual property (e.g. patents and copyrights) as well as so-called organizational capital (e.g. tacit knowledge, systems, and protocols) whereas natural capital means environmental resources and processes, both renewable and non-renewable, that help provide goods or services. These can be for example water, minerals, forests or biodiversity. Human capital consists of people’s competencies, capabilities and experience as well as their motivation to innovate within the organization. Lastly, there is also social and relationship capital, which refers to all institutions and relationships within the organization and its stakeholders as well as the sharing of information to enhance well-being. Examples of this type of capital are brand-associated intangibles, key stakeholder relationships as well as shared norms, values and behaviours. However one must take into account that not all capitals are equally relevant in an organization. Although nearly every organization needs to consider all six capital types in some extent, some of these capitals might only have a minor role or be rather indirect.

According to Topazio (2014) it is highly essential for senior management to understand what value means in their context and how the chosen business model creates value. The selected business model needs to be described clearly and key inputs, activities, outputs and outcomes need to be identified. By doing this, it is easier to understand which financial and nonfinancial relationships and resources are vital in securing the long term success of the business. According to Knauer and Serafeim (2014), integrated thinking could be viewed as the achievement of “sustainable profitability”, which refers to companies’ ability and willingness to explicitly and actively develop integrated thinking and embed sustainability in the company’s business model.

According to IIRC (2013), an organization’s business model can be defined as its “system of transforming inputs, through its business activities, into outputs and outcomes that aim to fulfil the organisation’s strategic priorities and create value over the short, medium and long term”. The term ‘inputs’ refers to the capitals essential to the organization’s survival whereas ‘business activities’ are the means how the organization creates value both for itself and its stakeholders. ‘Outputs’ is a term used for all key products, services and possible by-products, such as waste or emissions that require attention from the organization. Lastly there are ‘outcomes’ that can be both internal, such as revenue, and external, such as taxes paid, and either positive or negative. In today’s complex and competitive business landscape, organizations’ focus should lay on value creation with long term orientation. This takes place through optimization of value-creating opportunities such as meeting the customer needs and minimization of value-limiting factors such as resource constraints. The figure below, adapted from IIRC (2013), summarizes the value creation process in an organization that successfully applies integrated thinking and illustrates the role of business model in the context. The value creation process in the figure serves as an important framework for this research as it captures well the most crucial elements related to value creation in integrated organizations.

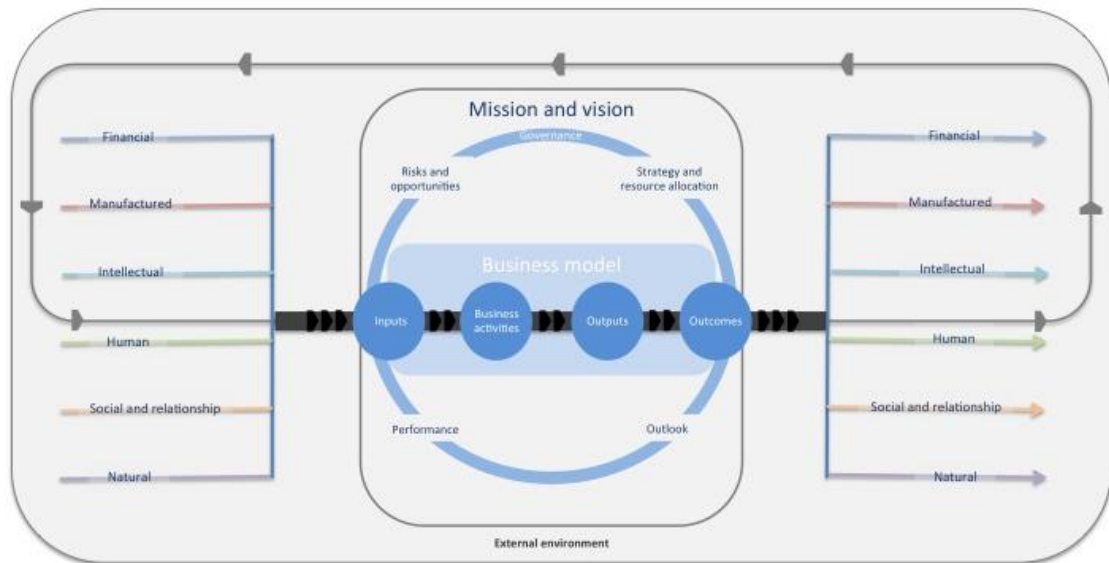


Figure 1. Revised value creation process. Adapted from IIRC (2013: 14)

2.3.2 Sustainable value creation on short, medium and long term

When applying integrated thinking, it is crucial to understand the notion of different timespans and, as a result, the linkage to sustainable value creation. According to Churet and Eccles (2014), integrated thinking should foster integrated decision-making and value creation that take place over the short, medium and long term. This provides a contrast to the traditional decision making relying on financial reporting that is often recognized as being quite narrowly focused on value creation in the short term to deliver financial results for the shareholders. However, value creation is not limited solely to the traditional boundaries of an organization (CGMA 2014). The value creation process connects numerous value drivers, of which many are intangible, while crossing many organizational and geographical boundaries. To build and sustain an effective value creation process, good information as well as a clear strategy and business model are required. All of these rely strongly on internal cohesion achieved through mutual understanding on organization's goals.

The value organization creates over time can be recognized through increases, decreases or transformations of the capitals that follow organization's business activities and outputs. This value can be further classified into two distinct groups based on the recipient – value created for the organization itself, enabling financial returns to the investors, and value created for others, such as stakeholders and society

at large. As integrated thinking encourages the senior management to consider all forms of capitals, it is essential for them to notice that value creation is unlikely to take place through the maximization of one capital while neglecting others. The process of value creation takes place over different time horizons, for different stakeholders and through different capitals. Hence, for example the emphasis on financial capital, such as profit, at the expense of human capital, such as inappropriate human resource practices, is unlikely to provide the maximal value for the organization in the longer term. (IIRC 2013.)

2.3.3 Internal commitment and stakeholder groups

Past research indicates that the top management commitment is a prerequisite for integrating sustainability into the core of the business (Eccles, Perkins & Serafeim 2012). It has been found that most typically the commitment of the CEO is required to keep sustainability high on the agenda and thus allow it to act as a force for change inside the company. According to Knauer and Serafeim (2014), in order to integrate sustainability into the business model of a company successfully both commitment of a company's top management as well as shared efforts to diffuse integrated thinking inside the whole organization are essential. Without the commitment of the CEO such an integration might remain peripheral and unable to drive transformation in the organization. The exploratory survey conducted by SAICA (2015) indicates similarly that the shift towards sustainability and the achievement of an integrated organization is in many cases inspired by a champion, meaning the CEO or a chairman. The study also finds that the key inhibitors for actively engaging to integrated thinking are poor information systems as well as the inflexibility of board members and staff.

The survey by SAICA (2015) also makes an interesting observation related to the stakeholders of the organizations. According to the results, integrated thinking and reporting have helped these companies to improve their relationships with various stakeholder groups. This observation goes well hand in hand with one of the foundational characteristics of integrated thinking already listed above – the consideration of broader societal well-being around the organization (IIRC 2013; Churet & Eccles 2014; Knauer & Serafeim 2014; Vesty et al. 2015). According to IIRC (2013), the organization's capacity to respond to the legitimate needs and

interests of key stakeholder groups is one of the factors that affect organization's ability to create value. Thus, a company applying integrated thinking actively considers their stakeholders in their value creation process. Engagement with stakeholders can take place in two ways – as a part of the daily business, such as liaison with customers or supplies, as well as for a particular purpose. An example of this would be engaging the local community into the planning process of a factory extension. In the context of stakeholder engagement the crucial notion is that the deeper integrated thinking has been incorporated into the business, the more likely it is that the legitimate needs and interests of stakeholders are an essential part of the company's way of doing business.

2.3.4 Integrated thinking as a management tool

According to Benson and Dresdow (2009), the complexity of the decisions that need to be made in organizations today require the ability to integrate diverse facts, ideas, issues and connections into one. This emphasizes the relevance of integrated thinking in decision-making. The survey by SAICA (2015) indicates that by adopting integrated thinking, companies had seen the greatest enhancements in the area of risk management due to their improved abilities to look at risks from a broader perspective as well as in a more integrated way. The results also indicate that the changing business conditions that force organizations to rethink their business models and improve them to become more competitive were the main drivers behind the motivation to embrace integrated thinking in their operations.

In linking integrated thinking to sustainability, senior management commitment and ability for financial decision-making and strategy-building that recognize and incorporate the variety of salient factors are essential. Hence, the development of key performance indicators (KPIs) is recommended as they help link sustainable outcomes and the multiple capitals in a cause and effect relationship. (A4S 2013 via Oliver, Vesty & Brooks 2016). Similarly, Knauer and Serafeim (2014) suggest that companies that adopt a balanced scorecard approach by using financial and non-financial as well as lag and lead key performance indicators have already adopted an integrated thinking mindset. The Balanced Scorecard can be defined as an internal tool for performance measurement, management control and reporting that helps

companies to integrate strategic measures, both financial and non-financial (Kaplan & Norton 1996: 2-19). Knauer and Serafeim argue that the balanced scorecard approach can help illustrate the interconnecting activity and top-down management approach. The research will discuss the different ways of measuring integrated thinking further in the subchapter 2.4. which draws on systems thinking theory to further separate the soft and hard forms of integrated thinking from each other.

2.3.5 Integrated reporting

In 1975, physical and financial assets represented 83% of the market capitalization value of the S&P 500 companies. To compare with, in 2009 the percentage is found to be as low as 19% whereas the other assets, such as intangibles and perceived future value, form already 81% of the full company value. (SAICA 2015). As financial reporting is among the cornerstones of decision-making in organizations, the call for improved reporting practices is evident (Eccles and Krzus 2010). What is considered to be closely linked to integrated thinking is integrated reporting, which combines key financial and nonfinancial information into one single document in a way which considers their impact on each other. Thus, the report is suggested to have the ability to shift the focus from the creation of short-term financial value into building a long-term business strategy that emphasizes corporate social responsibility and makes an investment to a sustainable society. According to Serafeim (2014), one of the key responsibilities of integrated reporting is to reflect integrated thinking inside the firm while also serving the managers as a discipline in managing the organization's resource allocation decisions.

The role of integrated report is to describe to the providers of financial capital how an organization creates value over time. It can be explained as a concise communication which allows the reader to understand how the different aspects of an organization, such as strategy, governance, performance and prospects together with the external environment, help create value over the short, medium and long term. (IIRC 2013). In the context of this research it is essential to take into account that integrated thinking and decision making are a prerequisite for effective integrated reporting as they are founded on an information set that is, when compared to traditional financial analysis, much broader, more forward-looking and more

interconnected. Thus, adopting the principles of integrated thinking into your decision making provides an opportunity for competitive advantage as well as enables a better contribution towards financial stability (CGMA 2014). According to Topazio (2014), companies need to adopt integrated thinking and decision-making processes in order to create an integrated report in which they consider for instance how their business model creates value and what are their key non-financial metrics and how they relate into the long term financial success. Although the existing literature clearly states that integrated reporting requires integrated thinking, there seems to be no dependency the other way round. Stubbs, Higgins and Milne (2013) and Stubbs and Higgins (2014) suggest that the lack of reporting or accountability disclosures does not necessarily mean that integrated thinking would be absent in an organization. Integrated thinking might exist but the organization might be unmotivated towards reporting these practices due to for instance a minimal external pressure to do so. In terms of comparing sustainability reports and integrated reports, Stubbs and Higgins (2014) argue that integrated reporting is more closely linked to the organization's strategy and the ways it creates value.

2.4 Systems thinking

Systems thinking is recognized to be akin to integrated thinking (Oliver et al. 2016). It is a concept related to the ability to emphasize interrelatedness and dependencies while recognizing the dynamic complexity of organizational influences and relationships (Checkland 1988: 27-30; Senge 2005; Iles 2010). The literature on systems thinking is based on the notion of embracing interrelatedness and dependencies related to the organizational influences and relationships and their dynamic complexity as well as on contrasting these with detailed complexity on micro-level. According to Gray (1992), systems thinking may also provide a platform for considering sustainability issues, such as concerns related to the natural environment. Systems thinking can be further classified into the more analytic hard systems thinking that focuses on detailed properties and soft systems thinking that stresses the properties of the whole (Checkland 1981: 189).

Oliver et al. (2016) study integrated thinking by laying the foundation of the study on systems thinking approach. As two different systems thinking types can be found –

soft systems thinking and hard systems thinking – they apply the same classification to integrated thinking by discussing the characteristics of soft versus hard integrated thinking. They suggest that hard forms of integrated thinking are visible in quantitative KPIs formed through the articulation of capitals and their causal links, whereas soft integrated thinking represents a rather holistic qualitative approach where sustainability is being embedded deep within the organizational practices. An organizational culture built on overall integrated systems thinking would then emphasize sustainability in both business processes and performance management systems and hence encourage employees to work towards the goals and objectives the management has set them. The figure below is adapted from Oliver et al. (2016), presenting briefly the key characteristics of both hard and soft integrated thinking.

Hard integrated thinking themes	Soft integrated thinking themes
Formal commitment to sustainability	Sustainability issues addressed through generative reasoning, interaction and a focus on relationships
Causally modelling and compliance to sustainability-related KPIs	Freedom from financial constraints
Extent of financial sophistication in KPIs	Broad social indicators of well-being
Sustainability is hierarchically and geographically siloed	Innovation and learning through collaboration

Figure 2. Revised operationalized hard and soft forms of integrated thinking. Adapted from Oliver et al. (2016)

Oliver et al. (2016) use the insights from soft systems thinking to build a theoretical framework for observing organizational commitment to sustainability. Soft integrated thinking is suggested to be present in the seamless nature of operations instead of being solely an add-on or a measure. Instead of a standalone activity, sustainability is said to “form a part of the overall discussion”. The authors provide soft integrated thinking three types of outcomes that are debates over values and beliefs, articulating them in activities and performance measurement and lastly, the concept of learning and continuous improvement. An important notion is that although hard and soft approaches have traditionally been seen as different sides of a coin, evidence on a reciprocal relationship has been found. In such relationships, the hard systems measures that represent sustainability accountability are clearly connected to those emerged from a soft systems thinking approach and practices. Soft integrated thinking was often found to act as a precursor to the accountability

expectations of hard thinking. However, these two approaches might also have goals that differ from each other. Whereas hard thinking might focus more on operational efficiency, soft thinking might address systematic sustainability challenges, such as climate change and water scarcity, as well as broader stakeholder concerns. The authors argue that some organizations appear to focus solely on the hard forms of thinking in order to meet operational efficiency goals. In contrast, other organizations are actively developing sustainability-related skills and resources, identifying important stakeholder relationships, relying on software tools provided by government agencies and working to track costs across the entire value chain. These practices are more closely related to soft integrated thinking with the goal of achieving sustainability within the organization's own context.

2.5 Sustainability in medium sized enterprises

The definition of medium sized enterprises varies between different countries and entities. Statistics Finland describes medium sized enterprises as those companies that have annual turnover between 10 and 50 million euro, employ less than 250 paid employees and have a balance sheet total between 10 and 43 million euro. In addition, 25% or more of the equity or voting stock should not be owned by companies that do not, depending on the circumstances, meet the definition of small or medium sized enterprises. As noted, definitions can vary, and for example Sitra (a public fund with the goal of Finland as a leader in sustainable well-being, <https://www.sitra.fi/en/about-sitra>) defines medium sized enterprises as companies with a maximum annual turnover of 300 million euro and less than 700 but more than 10 employees in their report on sustainability in Finnish medium sized enterprises. The below parts of this chapter describe further the previous research on sustainability in medium sized enterprises. As there is a limited amount of research concerning solely medium sized enterprises, this research also draws on conclusions on sustainability in the group of small and medium sized enterprises that has been the target group of a larger amount of existing research.

According to Halme and Korpela (2014), there are two main reasons on why medium sized enterprises are especially interesting in terms of sustainability. First, these companies are considered to be strategically more flexible than their bigger

competitors. Second, building of sustainable product or service offering might be a more profitable strategy for a medium sized company than for a large one. According to Sitra (2013), there is evidence that the number of those small and medium sized enterprises willing to better understand their sustainability impacts is on increase. These companies also share the motivation towards making their business operations more sustainable and, in some cases, also communicate this sustainability performance. Whereas earlier sustainability and corporate social responsibility meant basically providing sustainability reports to enhance public image, the current megatrends are encouraging especially medium sized enterprises towards strategic agility where the focus is on placing a significant value on sustainability related to the motivation behind the business, business operations and revenue.

The current literature on sustainability mainly concerns multinational companies that perform operations with most significant impacts, which is directing us towards overlooking the significant contribution small and medium sized enterprises can provide. Within SMEs, developing the concept of sustainability into hands-on business actions is still widely uncommon. The same applies to data on sustainability performance as the number of sustainability reports published by SMEs is still relatively low. Reasons behind the low level of development and generation of data can be for instance resource poverty, lack of public visibility, low degree of formalization as well as generally low reporting priorities. (Elke & Bos-Brouwers 2010.) Moore and Manring (2009) note that actually the large majority of all business globally falls into the SME category and therefore it can be considered surprising that SMEs are not yet addressed more systematically in terms of sustainability. According to these authors an estimated 80% of all registered enterprises globally fit under the definition of small and medium sized enterprises, however the estimations vary. According to Ciasullo and Troisi (2009), previous research indicates that the concept of sustainable development within SMEs has mainly been considered from the viewpoint of environmental dimension on sustainability which calls for a more holistic research on sustainability, including also for instance the social and governance aspects. In contrary, Hillary (2004) argues that the growing amount of evidence reveals that small and medium sized enterprises contribute to roughly 70% of the global pollution. Hence, the need for

addressing the sustainability issues especially from the environmental perspective also in other than large multinational companies is evident.

The means of practicing sustainable business and making profit of in medium sized enterprises differ from the ones in larger companies. In medium sized enterprises there are generally less obstacles related to the implementation of strategic agility when compared to multinational corporations. According to Sitra (2013), there seem to be three types of motivations towards a deeper engagement in sustainability. Risk management strategy refers to the demands on sustainable business expressed by stakeholders such as consumers, investors or buyers whereas cost efficiency strategy is directly related to cost savings gained from more efficient use of natural resources and human resources. Lastly, a company might also be motivated by the differentiation strategy, which offers the company a way to differentiate itself from others in the market. This is usually done through building the strategy around the current megatrends that have the ability to shape the demand radically as well as build completely new markets. (Sitra 2013.)

In medium sized enterprises, sustainability is seen firstly through new business opportunities instead of risk management. In addition, as also discussed earlier, strategic sustainability often develops from the interest of the owner or top management and can exist also without the tools for sustainability management. This is aligned with the above described notion of integrated thinking existing also as a separate concept from integrated reporting practices. The findings by Sitra (2013) also emphasize co-development with stakeholder groups as an essential part of strategic responsibility and remind that it is inevitably challenging to measure the financial profitability of sustainability. This is due to sustainability being integrated deeply in the core business, which makes it impossible to measure it as a separate concept. (Sitra 2013.) This is also typically the case with integrated thinking, which is aimed being embedded into the organization and span across all of its functions.

2.6 Sustainability and firm value

“We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.”

The above quotation is extracted from the mission of UNPRI (<https://www.unpri.org/about>), the world’s largest proponent encouraging investors towards responsible investment. Through its six principles for responsible investment, it encourages investors to use responsible investment as a tool for enhanced returns and improved risk management. PRI has already more than 1600 signatories (data from 2016). The growing number of signatories can be considered as a signal towards increasing investor interest towards sustainable value creation in companies. Consideration of environmental, social and governance (ESG) issues in investment decisions, also referred as responsible investment, is becoming increasingly popular (SIF, 2016). The growing awareness in relation to social and environmental risks can be seen as the major force driving the engagement of institutional and even individual investors in such investment strategy. According to Knauer and Serafeim (2014), longer-term investors in increasing numbers are being drawn towards companies with a strategy to implement sustainability into the heart of the business as well as active communication of these efforts. They suggest that similarly as companies are able to shape for example their customer or employee base, they would be able to do the same with investors. This refers to the company leaders’ ability to affect who buys their shares and ultimately change their shareholder base. Therefore there is a possibility that commitment to integrated thinking practices and external communication of it through for instance reporting could serve as tools for attracting long-term investors. Such investors can be considered especially valuable as they might allow the management to be more confident in executing their selected strategy on long term.

When considering the role of sustainability in determining firm value, two alternative theories can be considered. In accordance to the value-creation theory, integration of environmental and social responsibility into the corporate strategy reduces risks related to the company and enhances the opportunities for sustainable value creation.

The theory suggests that sustainability can act as an instrument for minimizing conflicts between stakeholders which results in stable growth through less risky corporate behaviour. In addition, sustainability engagement is a tool helping companies in maintaining their market position and providing access to better investment packages. In contrary, the value-destroying theory suggests that once companies switch from the pursuit of profit to social responsibility it might result in weaker profit maximization opportunities as it may lead to overinvestment and other activities not serving the best interest of shareholders. Implementation of sustainability activities is not always cost-effective and hence might destroy company value. (Yu & Zhao 2015.)

According to GRI (2014), lending institutions and investors tend to nowadays increasingly take into consideration the performance in various sustainability issues when assessing companies and making investment decisions. Such issues can be for example ethical values, environmental actions, social priorities as well as good governance. Results from the research of Yu and Zhao (2015) indicate that investors do reward companies with proper sustainable development strategies with higher valuation in the financial markets. However although the market pays premium for environmentally and socially responsible and well-governed companies, the authors indicate that international variation in such valuation exists. The valuation is perceived to be higher in countries with stronger investor protection and greater financial transparency. Burnett et al. (2011) suggest that corporate sustainability can be achieved through eco-effective management that emphasizes opportunities and risk management deriving from economic, social and environmental development and results in long term shareholder value. Whereas environmentally directed public policy has traditionally been viewed largely as including a trade-off between corporate economic performance and environmental sustainability, their study provides a contradictory view on the issue. The results indicate that long term economic prosperity and environmental sustainability are complementary goals instead of competing and that well-designed, sustainability directed policies actually benefit the large variety of stakeholders.

Serafeim (2014) suggests that the more integrated the company's reporting is, the greater is the share of long-term investors in the company's investor base. Further, he

finds that sustainability-related investor activism as well as the presence of a possible sustainability crisis increases the probability of a firm to practice more integrated reporting which in turn is closely linked to the changes in the company's investor base. Previous research indicates that there are also economic effects linked to the disclosure of sustainability data. For instance Cheng, Ioannou and Serafeim (2014) have found that companies with better sustainability disclosure would have better access to finance and lower capital constraints whereas Dhaliwal, Oliver, Albert and Yong's (2011) research indicates that issuing a sustainability report results in a decrease in cost of equity capital for those companies. According to Knauer and Serafeim (2014), it is essential for a company to adapt integrated thinking in order to attract the external shareholder. They consider sustainability disclosures to have a crucial role in encouraging long-term investors to invest in the company and recognize the generation of negative externalities as a factor increasing the difficulty of raising finance. In addition, negative externalities have a great potential to impair social capital and this way put organization's licence to operate at risk. Schadewitz and Niskala's (2010) research results indicate that among Finnish companies, communication via GRI responsibility reporting actually holds a significant role in explaining firm's market value. This communication helps decrease information asymmetry between the company executives and investors and hence GRI responsibility reporting can be considered necessary for producing a more precise valuation of the company. GRI refers to Global Reporting Initiative, a not-for-profit organization with the aim to develop tools and guidelines that help companies engage in integrated reporting.

3 RESEARCH DESIGN AND METHODOLOGY

3.1 Research methodology

The research is qualitative and empirical. The characteristics of qualitative research include for instance the concept of reality being subjective and based on individuals' experiences on it. In addition, the reality is socially constructed and as many realities as there are persons experiencing them exist. The ontology of the research, which refers to the view researcher has of the nature of reality, is interpretative. The research seeks to better understand the phenomenon of *sustainable value creation and integrated thinking in Finnish medium sized enterprises* through the assumption that the reality is socially constructed, under constant change and subjective. The assumptions related to epistemology generally refer to the nature of the knowledge and the relationship between the researcher and the participants. These assumptions are in this research aligned with the qualitative approach that states that a constant interaction between the researcher and the participants exists and the results are achieved through a mutual collaboration. (Hirsjärvi & Hurme 2008: 21-26.)

The research is based on methodological assumption of an inductive process in which the proceeding moves from personal into general, several variables co-exist, knowledge is context-related and classifications are made throughout the study. When conducting data analysis on the empirical data and drawing conclusions, the research has a subjective approach as the analysis is based on researcher's own interpretations. The study is also cross-sectional as the data is collected only once at a certain point of time. To provide a comprehensive understanding of the phenomenon, the research uses data triangulation that can enable providing more extensive research results while also improving the validity and reliability of the research. (Hirsjärvi & Hurme 2008: 21-26, 38-40.)

The research strategy is phenomenological. Phenomenological study can be described as a process where the researcher interprets the common meaning for several individuals of their lived experiences related to a specific concept or a phenomenon. Hence, the foundation of phenomenological study is on exploring what the participants have in common when they experience the chosen phenomenon and

the main aim is to, based on the individual experiences, to form a description of the universal essence. Researchers with a phenomenological strategy seek for the essential, invariant structure or the central meaning of the experience. When using phenomenological approach, it is essential that the researcher is familiar with the concept of studying how participants experience a certain phenomenon. The research questions are designed in a way that allows to explore the meaning of the selected experience for participants and asks them to describe their experiences. Data is collected from individuals who have experienced the phenomenon through interviews or other methods such as observations and documentations. (Creswell 1998: 51-55.)

Oliver et al. (2016) suggest using qualitative methods over quantitative ones when exploring integrated thinking due to the complexity of nowadays' organizational environments. According to them, research on integrated thinking is conducted the best by gathering the evidence as elaboration of experiences instead of a sole focus on more formalized types of data such as internal protocols, KPIs and tick-box targets. As integrated thinking can be considered as a leadership quality, interviews and observations can provide a solid platform for understanding the capacity of the management. This notion is suggested by the fact that although other methods are also allowed, phenomenological study is the most often conducted through interviews.

3.2 Target groups

The research explores the selected phenomenon through gathering data from two different target groups, of which the primary one is the executives in Finnish medium sized enterprises. The arguments for selecting medium sized enterprises as the target group instead of for instance companies of another size can be found from the chapter 2.5. The secondary target group consists of the representatives of private equity firms investing in Finnish medium sized enterprises.

Within the primary target group, two different data collection methods are used – an online survey as well as three interviews. The target group of the survey was selected by using ODIN (<http://www.bvdinfo.com/en-gb/home>), which is a comprehensive

database that includes financial information on public and private companies located in the Nordic region. The possibility to use ODIN for the primary investigation on the target group was given through the research collaboration with EY Finland which granted the use of the tools EY has. ODIN was accessed on 19 February 2017 and a selected list of criteria was applied to have a list with those Finnish companies that meet the definition of a medium sized enterprise. This criteria was based on the definition of medium sized enterprises presented in chapter 2.5. However the independence requirement was not possible to set as a criterion and thus such companies were left out manually from the final sample by excluding for instance all Finnish subsidiaries of larger multinational companies. The search results in ODIN were based on financial data from year 2015.

The search resulted in 866 companies. However a large amount of these companies were subsidiaries of larger entities or had a major ownership held by a larger entity, making them disqualified for the research. The amount of companies selected to the final sample that received the survey link was 150. The companies were selected randomly from the list, excluding only those companies who clearly do not fulfil the ownership criteria. Random selection was chosen in order to form a sample that would represent the overall population of Finnish medium sized enterprises as well as possible. The size of the final sample was considered suitable for a qualitative study which does not aim to conduct quantitative analysis of the results and generalise them into a larger population but instead has the focus on exploring the individuals' thoughts of the selected phenomenon through open-ended questions.

The survey responses provide a path towards exploring the thoughts of a larger number of company representatives whereas conducting interviews allows to acquire a deeper understanding of the participants' experiences. The study includes interviews with three executives from Finnish medium sized enterprises. The representatives for the interviews were selected manually by choosing companies that based on their external communication seem to be forerunners within the area of sustainability. Such criteria was applied because the research aimed looking into the ways how sustainability can be effectively integrated into business model instead of looking for instance into how common such integration is in general. The latter objective would have favoured a choice of a random selection of interviewees. All of

the interviewees and survey respondents represent a variety of different industries and companies of different maturity level as some of the companies had been established quite recently whereas some of the companies had operated already for centuries.

The secondary target group of the research is the representatives of private equity firms operating in Finland. By choosing this target group, the research seeks to find answers to the secondary research question and this way further complete the understanding of the selected phenomenon. The final sample was selected by going manually through the potential private equity firms and selecting the ones that invest in Finnish medium sized enterprises and in their website communicate about sustainability-related concerns in selecting and developing their investments. These companies are communicating their targets within either or both of the following ones: the interest in companies that already have sustainability practices embedded in their business as well as the willingness to develop the sustainability practices in the companies during the period of their ownership in order to affect the company value and growth positively. The representatives with the most knowledge on sustainability issues within their organizations were identified with help from an EY colleague with a vast knowledge on the field of private equity investing.

3.3 Data collection

3.3.1 Questionnaire

The designed online survey consists of three parts and is based on the Webropol tool. The survey was designed to be as brief as possible considering also the ability to collect all of the relevant data. The language of the questionnaire is Finnish as exploring a rather complex topic might be considered easier in your mother tongue. Both of these factors were expected to increase the response rate. The questionnaire was sent out to one of the executives in the company, most often this being the CEO. However, the companies were also studied on their websites to see who of the executives could possibly be the most suitable person to answer. In most of the companies there was no specific person dedicated to sustainability and due to this several companies requested forwarding the survey request to another representative

which made the total number of survey recipients to rise up to 189 although the number of companies included in the sample was 150.

The emails including the link to the questionnaire were sent out in three parts. The first sample included 42 companies and the emails were sent out on 1st March 2017 at 09:01. The second sample included 63 companies and it was sent out on 20th March 2017 at 09:25. The third sample included 45 companies and it was sent out on 21st March 2017 at 08:12. The survey requests were sent out in three parts as despite testing the form first, if a need to implement changes to the survey would have occurred this could have been detected first with a smaller sample. Reminders of the survey were sent out approximately a week after the first request and survey links to new representatives within the selected companies were sent out whenever requested. As the response rate to the survey was very low in the beginning, phone calls were made to the executives to encourage them to answer the survey. The phone calls had a positive effect since as a result many of the executives found a motivation towards filling the survey. The final number of responses was 34, thus making the response rate 22,7% (34/150). The number of responses included in the data analysis was 32 as two of the respondents were later confirmed to be from companies being a part of a larger organization thus not fulfilling the set criteria for the survey target group.

The questionnaire begins with an introduction chapter explaining the focus of the research and its key concepts. The inclusion of the introduction chapter is believed to increase both the reliability and validity of the results as it increases the probability that the respondents understand what the survey measures. Also, was the survey repeated with another sample they would more likely understand the key aspects of the research in the same way. The first part of the questionnaire – structured multiple choice questions – consists of nine statements evaluated with a Likert scale from 1 to 5 in terms of how strongly the respondent agrees to the statement. Although phenomenological study primarily encourages towards the use of open-ended questions, a small structured part was decided to be included in the questionnaire to help creating a coherent overall description of the respondents' thoughts and to serve as a warm up section. The second part includes two open-ended questions with the aim to collect as much information as possible on what the selected individuals have experienced in relation to the selected phenomenon and how they have experienced

it. The third part leaves room for additional comments. The full questionnaire is included in the appendix one.

3.3.2 Interviews

Interviews were conducted with the executives in Finnish medium sized enterprises as well as with representatives in private equity firms investing in Finnish medium sized enterprises. The interview requests were sent out via email to five private equity firm representatives on 29th March and to five company executives on 31st March 2017. From both groups, three representatives agreed on to be interviewed. The interviews with company executives were conducted via phone on 4th, 5th and 6th April 2017 whereas the interviews with private equity firm representatives were conducted face-to-face on 4th April 2017. The interviews were unstructured with open-ended questions. When conducting an unstructured interview, the interviewer deepens the responses of the participants and builds the upcoming parts on top of them (Hirsjärvi & Hurme 2008: 45). Such interviews are closely related to conversations in which the given response provides a basis for the next question. Such an approach was chosen due to its perceived suitability to the characteristics of a phenomenological study. The interviews were built around three different themes and designed to last approximately 20 minutes. Each of the themes included some guiding questions that were used to gather further information and to help the respondent structure their thoughts around the topic. The interviews were conducted in Finnish. The full bodies of the interviews are included in the appendix one.

3.4 Data analysis

The main characteristics of data analysis in qualitative research can be classified into different states. The analysis can be started already during the collection process, where the researcher simultaneously makes observations. A researcher may use inductive reasoning which refers to relying on the data instead of existing theories in making the conclusions. This approach is also a part of this study. There are several analysis techniques, of which the most relevant one considering this study is classification in which the results are being coded in different classes. (Hirsjärvi & Hurme 2008: 136-137.) The data analysis of this research is conducted following the

principles of data analysis process in phenomenological study. When the data has been collected, the original protocols are divided into statements. These are further transformed into clusters of meanings through categorization, resulting in phenomenological concepts. Lastly, these concepts are tied together and grouped into 'meaning units' to create a general description of the experience. This can include descriptions of *what* was experienced and *how* it was experienced. When proceeding with the analysis, the researcher reflects on their own description and searches for all possible meanings and perspectives to form a description of the essence of the experience. Thus, the data analysis moves from narrow units such as statements into broader units such as meaning units and finally into detailed descriptions on the phenomenon. (Creswell 1998: 147-150.)

The analysis of the survey responses in this research begun with transferring all responses to the open-ended questions as well as the additional comments into NVivo, a program for qualitative research analysis. In addition, the mean values and standard deviations of the responses to the arguments were extracted from Webropol. The interviews were transcribed and transferred into NVivo for further analysis. Then the interview content and written data from the survey were carefully analysed, first looking into significant statements that were made into nodes, and then classifying these into meaning units. Lastly, a total of four key concepts were found and categorized into separate units including also sub-concepts. The results of the responses to the arguments within the survey were placed into the different concepts through choosing the most suitable one for each argument. These findings are discussed in more detail in the fourth chapter.

The quotations included in the findings presented in chapter four have been made anonymous however to ensure traceability the respondents have been marked either with a number or letter. The survey respondents have been marked with a number from 1 to 32, based on the time of submitted survey response. With a similar logic, the interviewees are marked with letters A, B and C. The company executives are marked as *Company executive interviewee A (08:00/4.4.2017) / B (10:00/5.4.2017) / C (11:30/6.4.2017)*. The private equity firm representatives are marked as *Investor interviewee A (11:00 / 4.4.2017) / B (12:30 / 4.4.2017) / C (14.00 / 4.4.2017)*.

4 FINDINGS

4.1 Sustainable value creation and integrated business model

4.1.1 Aspects on sustainable value creation and integration

Among the survey respondents, the multiple choice argument *“Sustainability (financial, environmental, social) is effectively integrated into our business”*, resulted in a mean value of 4,22 indicating a slightly below somewhat strong agreement. The argument *“Commitment to sustainability and sustainable value creation helps us to do overall better business”* resulted in a mean value of 4,53 which indicates a rather strong agreement on the argument. The standard deviation for the former argument is 0,66 and for the latter 0,57 which depicts a rather strong cohesion among the participants. The argument *“Our organization has been successful in creating sustainable value during the last 3 years”* resulted in a mean value of 4,13 and a standard deviation of 0,71, demonstrating that the respondents’ organizations consider themselves relatively familiar with sustainable value creation. As a support to the above results, all three interviewed company executives also recognize at least parts of their business integrated and consider sustainable value creation enabling an overall better business performance.

The company executives, both interviewed and survey respondents, refer to sustainable value creation for instance as being extremely important or highly beneficial, as part of normal business or as an aspect included in all decision-making (13 nodes). The executives emphasize the sustainable value creation in their own operations (35 nodes) through for instance resource efficiency as well as in the whole supply chain (17 nodes) through for instance selection of suppliers with similar values. In addition, a total of 19 nodes are related to the sustainability of the products and services provided to the customers.

“The company has been established so that we can, within this industry and its close operations, advance environmentally friendly technology, ways of operating and methods.” (Company interviewee C)

“Our offering is established on the values of sustainable development, reuse and having no batteries.” (Survey respondent #16)

The three interviewed private equity firm representatives all consider ESG factors to play a role in investment decisions. One of the interviewees describes the role as a ‘hygiene question’ with yes or no type of classification whereas the two others see it as a decision making criterion with a certain weight. All three interviewees strongly emphasize that a clearly sustainable business model is a factor which increases the attractiveness of a company as an investment as such business model is considered to have long-term viability and more likely to generate new business opportunities. However, the increased level of attractiveness only realises once the business model also has the ability to generate profit effectively as this is the main strategic responsibility of private equity firms.

“We simultaneously always analyze the sustainability aspect and hence see it as integrated in a way that once the company is responsible it guarantees them a long term permission to exist.” (Investor interviewee B)

“I can say that yes it has a somewhat remarkable weight in investment decisions. It is of course not the only criterion, however it is a criterion that has constantly increased its significance.” (Investor interviewee C)

4.1.2 Business with a long-term orientation

The questionnaire includes two similar statements related to the timespan of business; *“We believe it is important to consider our company’s ability to create sustainable value on short term / long term”*. The mean value for the argument on short term is 3,84 and standard deviation 0,92 whereas the mean value for the argument on long term is 4,31 and standard deviation 0,93. The results indicate that these company executives consider sustainability as a factor primarily with long term significance and that they actively seek to look into the future when developing their operations in the context of sustainability.

There are 9 nodes on long term approach within the survey responses whereas also all three interviewed company executives consider long term orientation to hold a significant role in their considerations. The thoughts were most often related to sustainability in operations being the only way to practice viable business on long term, sustainable business resulting in long term cost savings as well as to sustainability consisting on processes and operations with a long timespan. Life cycle models or management are also mentioned by five survey respondents which also reflects the long term orientation in business. Two of the interviewed private equity firm representatives clearly state sustainable business models as a factor predicting that the company has long term potential which will then increase the chance of a successful exit.

“Our point of view is that sustainable value creation is a long term investment that benefits us also economically. We do not aim for short-sighted returns.” (Survey respondent #2)

“If a company operates in an industry where sustainability creates new business opportunities it can make it attractive as an investment. If a company follows certain trends such as energy efficiency it probably means that the business can develop into a positive direction and once we make the exit it is likely that the theme also advances the company going forward.” (Investor interviewee C)

4.1.3 Context-specific sustainability themes

Especially the findings from the interviews within both target groups indicate that each company typically has a specific theme on sustainability issues. This refers to the fact that not all aspects on sustainability are as relevant to some companies as they are to others but rather each company has their own angle on sustainability which depends for instance on their industry and the nature of operations. All three interviews with company executives support this as each of the companies clearly have their own key issues they focus on it being either social responsibility, building of environmentally friendly technologies or manufacturing of consumer goods with low environmental footprint. The private equity firm representatives all discuss on the practice where they select an angle on sustainability for each of their investments

which then includes more detailed indicators being followed on and developed further. Two of the interviewees clearly state the use of selected KPIs to measure and follow the performance of their investments and indicate that it would not be logical to track and develop the same aspects in every company regardless of the industry.

“It is kind of the same as if a company in forest industry would cut protected forests without permission instead of constantly considering environmental aspects - - so in a way their business is conducted also through considering the environmental aspects but for us it is more about conducting business through considering the humane aspects as well.” (Company interviewee B)

“When we enter a new company we already in the investment phase or before it analyze what should be done there and here we again come into the issue of focusing on those that are relevant to the company operations when the practices we are focusing on are kind of automatically the ones that also increase the company value. We do not want to focus on every possible sustainability aspect but on those that are the most relevant ones to the operations.” (Investor interviewee B)

As discussed above, the possible measurement and development of sustainability aspects within the portfolio companies of private equity firms are usually built around a certain theme. All three interviewees suggest using certain tools for measuring and tracking these activities such as policies and KPIs. In addition to the industry, also the size of the business has a great effect on how sustainability issues are being approached. In smaller companies development of basic policies might be the key target whereas in larger companies more advanced KPIs and sustainability reports are common tools. Common to all three interviewees is the motivation towards improving the sustainability performance of all their investments as this is considered a factor affecting the overall value and attractiveness of the company.

“We do believe that when these things are put in order the value of the company is higher. This is related to all processes within the company but especially these. We want these companies to be in a better shape from the viewpoint of ESG than they were when we got on board.” (Investor interviewee A)

"We are committed to develop it in every company but the fact that how far we go on the other hand depends on the initial situation - how basics is it that we start with and on the other hand also what is the so-called desired level there." (Investor interviewee C)

4.2 Motivational factors driving sustainable value creation

4.2.1 Perceived opportunities

The survey respondents' comments clearly indicate advantages within sustainable way of operating (17 nodes). Such advantages are named to be for instance trust and appreciation received from the stakeholders, enhanced competitive advantage and brand value as well as a larger pool of customers and long term cost savings. The interviewed company executives consider for instance positive publicity, building of products with competitive advantage as well as operating through the selected sustainable values advantageous factors. A shared opinion among these interviewees is that they all consider sustainable value creation as a factor that is both a necessity and a source of competitive advantage instead of representing solely the other. According to them, it can provide ways for differentiation but is still a necessity considering the viability of the operations on long term.

"Sustainable way of operating really does provide competitive advantage in our industry and customers have begun to appreciate it more and more every year and this trend will certainly continue. Negative events within the industry from around the world come into publicity on a regular basis which increases the appreciation of responsible companies." (Survey respondent #29)

"Well primarily it is a source of competitive advantage for us, however I see it as a necessity also because I can't see a future for this field of business if these issues are not taken care of." (Company executive interviewee B)

The investors indicate the possible opportunities being mostly related to the long term business potential as well as to the new business opportunities that might rise

from a sustainable way of operations. These are considered factors that also arouse the interest of potential buyers when the exit phase comes closer.

"But it is also true that once these issues have been developed it certainly increases the value of the company also in the exit since whenever the business is sustainable interested buyers can be found." (Investor interviewee B)

An interesting finding among the interviewees is that all six of them recognize sustainability in business as a growing trend. Many of them admit that back in 15 or 20 years there was not much pressure on the issue but lately there has been an increase in interest towards these issues expressed by various stakeholder groups.

"In general there has been a lot of talk about sustainability issues during the last two years now and in this sense it has been good to see that approximately four or five years back we were in a way on the crest of a wave before the wave reached its top." (Company interviewee B)

"It is interesting that in the field of private equity investing the reporting requirements have just been renewed and now from the beginning of this year it has become compulsory to report also on ESG issues and on how we have developed them during our ownership period." (Investor interviewee B)

4.2.2 Perceived risks and challenges

Two survey respondents as well as two of the company executives interviewed discuss the importance of sustainable value creation as a tool helping their company to manage risks. However within the private equity firm representatives interviewed, the risk approach is a major consideration. All interviewees clearly agree that when making the investment decision it is highly important that no significant sustainability-related risks are being found as these will result in rejecting the investment. In contrary, they state that the company does not have to be especially advanced within the area of sustainability. Once there are no significant risks, the investment can be made and the sustainability issues can actively be developed during the ownership period to increase the company value.

"We do consider it as a so-called hygiene question - these issues need to be in order. Thus it is not a criteria itself related to whether we get on board or not but instead it is an issue that is a complete deal breaker." (Investor interviewee A)

Majority of the company executives recognize some challenges related to sustainable value creation (24 nodes). Majority of such challenges are related to either the lack of proper resources and the perceived high cost of investments to sustainability in terms of for instance certifications and reporting (7 nodes) or to the pressure towards lower prices as the main criterion set by the customers (9 nodes).

"In the end the fact is that sustainability in operations may open doors, but we do not make deals with it in our industry. The relationship between price and service is finally what makes a deal. Then it might not matter that much on what level the sustainability issues are as long as they fulfill certain requirements." (Survey respondent #32)

4.3 Different capitals

The argument *"We actively use also other than financial value to support our decision-making"* resulted in a mean value of 4,03 and standard deviation of 0,82 among the survey respondents. The results indicate that in general the issue is considered meaningful but whereas a total of six respondents have selected the options 'somewhat disagree' or 'neither agree or disagree' and 17 respondents the option 'somewhat agree', it might also give evidence that the financial factors have a considerable role in decision-making and even a pressure to deliver financial results might be experienced on some level. The notion is being supported by the company executives interviewed who all consider also other capitals in their decision making but emphasize the importance of it realizing into financial advantages sooner or later.

4.3.1 Social and relationship, human and intelligent capital

The arguments *"Sustainable value creation helps us advance our organizational goals"* and *"Our whole organization is committed to sustainable value creation"* resulted in mean values of 4,50 and 3,63 and standard deviations of 0,62 and 0,94.

The results indicate that sustainable value creation is considered advantageous in the organizational context although gaining the commitment of the whole organization might be somewhat challenging. The company executives consider the role of human capital in company operations (24 nodes) mostly in terms of employee well-being, safety and training. The general tone is positive and these are seen as crucial factors in the context of sustainable business. Interestingly, although not being asked of, in all three groups one respondent mentions the top management commitment to sustainable value creation as a driving force. Social and relationship capital is visible in the considerations related to stakeholders (see subchapter 4.4.) as well as in the comments related to the support provided to local communities and entities (11 nodes). Intelligent capital received only a low number of attention (4 nodes), related for instance to long term employment as well as utilization of intelligent capital in solutions more effectively.

“Long term employment is also valued because it provides us with good, skilled employees and it is positive considering the atmosphere and culture of the company.”
(Survey respondent #29)

4.3.2 Natural, manufactured and financial capital

The company executives have a high level of consideration towards natural capital which is being considered especially from two aspects – company operations (33 nodes) as well as end-products and services (14 nodes). The comments are mostly related to resource effectiveness, environmentally friendly materials and processes as well as durable products. In contrast, manufactured capital is considered only in three comments. Considerations on financial capital (16 nodes) include a variety of aspects among the executives. The idea that considering other capitals realises as financial benefits at some point is evident (9 nodes) whereas there are also executives who clearly state that for customers the price is what matters the most (4 nodes). Issues related to taxation, such as practices of being fair and transparent, are mentioned four times. An important consideration shared by all three company interviewees is that although conducting sustainable business, the financial realities and the fact that companies exist to generate profit to their shareholders need to be accepted and

followed. These executives might also feel pressure when having to choose between financial profit and for example their sustainability-related values.

“A slogan I have been using is that ‘economical is ecological as well’ so that these two actually start with the same parameters.” (Company executive interviewee C)

4.4 Approach to stakeholders

Within the multiple choice section in the survey, the argument *“We attempt to actively consider our stakeholder groups and involve them into our decision-making”* resulted in a mean value of 3,69 and standard deviation of 0,9. The result gives a signal that the ways of considering and engaging stakeholders may still lack the required attention and proper practices within the survey respondent organizations.

4.4.1 Stakeholder expectations

Many of the company executives can identify sustainability-related stakeholder expectations. A total of five respondents highlighted the sustainable way of doing business as a factor that effectively builds trust between the company and its stakeholders and thus creates significant value.

“Value, appreciation and trust in the markets are created through operating in a sustainable manner. This is at the core of the business. Value increases through performing as well as possible from the viewpoint of our customers, employees, owners and other stakeholder groups.” (Survey respondent #10)

“The advantages of operating in a sustainable manner are visible through the trust in our company as a cooperation partner that our customers, employees and other stakeholder groups express.” (Survey respondent #7)

Some of the company executives also identify sustainable value creation as a factor which their stakeholders consider as a default – there is no question whether the company operates in a sustainable manner or not (8 nodes). In some cases such

requirement is related to the business model as a whole whereas in some cases it is related to a specific part of the business such as sustainability of raw materials used or environmental performance of the company. The essential nature of sustainable value creation is also visible through for instance it helping in keeping the existing customers or it being a demand expressed by the end customer of the company or a customer of the company's customer.

“The customers already expect their partners to be responsible and work towards improving their sustainability performance. Therefore they maybe can already expect it and there is a kind of requirement that things should be this way as well.” (Company executive interviewee A)

Through the increasing sustainability-related expectations, many of the company executives consider the aspect of sustainability communications as well as the possible challenges relate to it. The comments (11 nodes) mostly reflect the opportunity to acquire positive visibility, the need for proving the sustainable approach to stakeholders through communications as well as the challenges related to communicating in an effective and influential way. Many of the executives also address the significance of different certificates (8 nodes), reporting and auditing practices (6 nodes) and obeying the law and regulation (5 nodes).

“We are about to launch an ESG system with which the sustainable development and ethical way of operating in our company will be audited and improved.” (Survey respondent #14)

“Once we knew we were doing the right thing we thought why wouldn't we then begin to report and include a third-party auditor because otherwise we would have no evidence on that we have managed things well. We really also wanted to show externally that we have taken care of these issues, we really give them a thought and they are important to us.” (Company executive interviewee B)

An interesting notion complementing these findings is that all of the three interviewed private equity firm representatives can also identify an increasing stakeholder pressure towards sustainability in investments. According to the

representatives, a growing number of investors have signed responsible investment principles such as UNPRI and expect the private equity firms to also consider responsibility in their investments.

“There are quite a many investors – a growing number of investors – who want to see that we create an impact and that it is being followed.” (Investor interviewee A)

“What we have also seen is that measuring is a factor which is of an interest for our investors constantly more. That they need to be provided with a better understanding of how this issue is developing in those funds they have invested in.” (Investor interviewee C)

In line with the above, the interviewed investors also identify the need towards communicating about sustainability to stakeholders. They provide tools and ways of communication to let their investors know about their progress but also recognize the importance of communicating about their investments' sustainability progress to a larger audience in order to improve their brands and this way businesses more effectively. A relevant tool for this are for instance sustainability reports that are mentioned by two of the interviewees.

“Under our command, the management built a measurement system and development programs as well as sustainability reporting in which these results are being told about even though the most important thing in sustainability is not how the report looks like but how it affects the operations - - But yes, the work done needs to be concrete and visible as otherwise it is not effective.” (Investor interviewee C)

4.4.2 Stakeholder engagement

According to the company executives, a variety of practices to engage stakeholders to the company operations exist. The most often mentioned practices were related to the selection of suppliers or other coordination parties (5 nodes), open discussion and asking of opinions as well as cooperation with customers (3 nodes). The comments reflect for instance the selection of suppliers with similar values or with a local

presence in the area. According to the company executive interviewees, engagement is rather informal and is visible through practices such as presenting the company's work and collecting feedback as well as testing of different ideas.

“A highly critical stakeholder group are our raw material suppliers who we collaborate a lot with and although no unambiguous list of criteria exists we have selected partners who are similar to us and have similar values – they fulfil our sustainability requirements and we have long term partners within this sector.”

(Company executive interviewee A)

“Well it is in no way systematical however we do ask for opinions on a regular basis, test our ideas or use customer satisfaction surveys.” (Company executive interviewee C)

Improving your sustainability performance through collaborative actions with stakeholders is also recognized by some of the company executives. A total of four respondents directly express the existence of such actions. Stakeholders are engaged to the company operations also in various more practical ways, including for example engagement to the public discussion, events and initiatives as well as supporting local communities (7 nodes).

“We have tightened our collaboration with our customers in issues related to environment and sustainable business.” (Survey respondent #30)

5 DISCUSSION OF THE RESULTS

5.1 Evaluation of the methods used

This research uses data from three sources, including survey among randomly selected company executives as well as interviews with three selected company executives and three selected private equity firm representatives. Combining of data from different sources enhances the quality of overall results through increased validity and reliability, being further described in chapter 5.2. Having several sources also helps overcome the possible hindrances a certain method or target group might have. In the context of this research this notion is relevant considering the survey which resulted in a low motivation among participants towards responding and thus a relatively low response rate of 22,7%. Possible distortions caused by loss, some relatively short answers that complicate conducting a detailed analysis as well as for instance the varied roles respondents hold in their organisations are among the factors that hinder the credibility of the survey results. However, when combined with interviews within two target groups, these results are verified significantly. The interviews conducted for this research are considered successful due to the careful selection of candidates with the relevant knowledge as well as a detailed introduction to the research and its area provided. To conclude, collecting data from two target groups with two different methods instead of relying to only one source or method is considered a successful strategy to create understanding of the selected phenomenon.

5.2 Validity and reliability

In the context of this research it is relevant to consider three types of validity: structural, internal and external. Structural validity refers to whether the research uses concepts that reflect the selected phenomenon. Internal validity emphasizes the causal relationships inside the study whereas external validity refers to the possibility to generalise the results to cover a larger audience. (Hirsjärvi & Hurme 2008: 184-190). This research uses a variety of ways to validate its results. The analysing and documentation process of the results has been described and justified carefully along the process to demonstrate how such findings in terms of the four selected main concepts and their sub-concepts have been made and how are the conclusions drawn

between the existing theory and the findings. Another way to increase validity is data triangulation that is applied in this research through combining data from three different sources to create a better understanding of the selected phenomenon. The results of the study give signals of good validity as the data from all three sources shares several similarities in relation to the phenomenon. In addition, a way to increase validity is to use reliable sources (Hirsjärvi & Hurme). As the survey links were sent mainly to personal email addresses and interviews were conducted either via phone or in person, the sources of data can be considered trustworthy.

Reliability refers to the repeatability of the research, concerning whether it is possible to acquire the same result when applying an identical research design again to the same target group. In addition it can refer to two researchers coming into a similar conclusion when analysing same data or acquiring the same result with parallel methods (Hirsjärvi & Hurme 2008: 184-190). This research considers a variety of aspects to improve the reliability of the results, including for instance providing the participants clear definitions of the key concepts used, a proper introduction of what is being researched and how as well as a chance to seek for further advice in understanding the research. According to Hirsjärvi and Hurme reliability does not only refer to the way participants answer or react but also to the way the researcher analyses the data. This includes for example inclusion of all possible data collected, careful transcribing process as well as the high motivation towards understanding the way participants think about the phenomenon based on the results. All of these factors have been taken into account when collecting and analysing the data as well as making the conclusions. However, it is crucial to keep in mind that a research always consists of the interaction between the researcher and the participants. In addition, the fact that the researchers' opinions and ways of behaviour also change through time might affect the repeatability under any circumstances.

6 CONCLUSIONS

6.1 Summary of the research

The objective of this research is to explore the phenomenon of *sustainable value creation and integrated thinking in Finnish medium sized enterprises*. The research seeks to answer the following questions

What kinds of evidence on sustainable value creation and integrated thinking can be found in the selected Finnish medium sized enterprises and how are they contributing to the overall company performance?

Within the selected private equity firms investing in Finnish medium sized enterprises, how does investment targets' sustainability performance affect the firm value and attractiveness as an investment?

To create a better understanding of the phenomenon and answer the selected questions, an empirical study is conducted by using the phenomenological research strategy and relying on multiple methods within two target groups including company executives in Finnish medium sized enterprises as well as representatives of private equity firms.

The data from the survey for company executives and the interviews with company executives and private equity firm representatives has been analysed and based on the analysis, four main concepts and their sub-concepts have been formed. These findings are being further analysed in contrast of the existing literature presented in the second chapter of this research. The results of this analysis are presented in the following subchapters where they have been further classified into theoretical and managerial implications.

6.2 Theoretical implications

The existing research gives evidence of the advantages of strategic implementation of sustainability into business operations (Chandler 2016; Ciasullo & Troisi 2012;

Topazio 2014; Knauer & Serafeim 2014). Such benefits might include for instance competitive differentiation value, value optimization, management of stakeholder interests and better legal compliance. The company executives in this study express a variety of signs of integration of sustainability into their business operations and of engagement to sustainable value creation. The participants consider sustainability within their own operations, their whole supply chain as well as the products they manufacture and the services they provide. In describing the integration of sustainability into their business, they state it for instance as a part of all decision-making or their business performance as a whole. There is a relatively strong agreement on sustainable value creation as a practice improving the overall business performance. These considerations indicate evidence of integrated thinking, which can be seen as a management tool for controlling the balance between the economical, social and environmental aspects in business and utilizing a broader set of capitals with the goal of delivering sustainable profitability on different timespans (IIRC 2013; Churet & Eccles 2014; Knauer & Serafeim 2014; Vesty et al. 2015). Sustainable value creation through CSR (Chandler 2016: 480-481) and integrated thinking (Eccles & Krzus 2010; IIRC 2013; Churet & Eccles 2014) should encourage to consideration on different timespans and building of business with long term potential instead of focusing solely on delivering short term financial returns to shareholders. In the context of this research, much weight is placed on long term orientation by the participants. The surveyed executives have a higher priority on delivering sustainable value on long term (4,31) versus short (3,84) whereas all interviewees also describe long term orientation crucial both in companies' business performance as well as investors' investment strategies.

Strategic investments to sustainability as well as disclosure of sustainability practices for instance through reporting are perceived as factors rewarded by the financial markets through for instance higher firm valuation, increased attractiveness or decrease in cost of equity capital (Schadewitz & Niskala 2010; Burnett et al. 2011; Dhaliwal et al. 2011; Cheng et al. 2014; GRI 2014; Knauer & Serafeim 2014; Serafeim 2014; Yu & Zhao 2015). These are supported by the findings of this research as all investor interviewees agree on business model with sustainability integrated being a factor increasing the attractiveness of a firm as an investment. Such an increase takes place through the long-term potential the company has as well

as the new business opportunities such approach can generate. However, the increased attractiveness only realises once the business also has a solid potential to generate profit to the shareholders. The findings suggest adoption of the value-creation strategy in determining firm value (Yu & Zhao 2015), in which integration of environmental and social responsibility reduces risks and enhances opportunities to sustainable value creation, and rejection of value-destroying theory, in which engagement to such actions is considered a factor which may result in weaker profit maximization. In the context of this research, increased attractiveness through sustainability is also visible in the interviewed investors' willingness to measure and develop the sustainability of their investments during the investment period. Most often the measurement is made using KPIs and communication to external parties with sustainability reports. The use of KPIs (Oliver et al. 2016; Knauer and Serafeim 2014) and attention to environmental, social and governance (ESG) factors (Churet & Eccles 2014) can be considered signs of an integrated thinking approach in companies.

The concept of each company having a specific theme on sustainability, demonstrated by the research participants, receives also some support from the theoretical background. According to Chandler (2016), companies should only focus on those actions that are linked to their core operations, although no capital type should be completely neglected to maximize another (IIRC 2013). As noted, the complexity of organizational decisions today requires the ability to integrate diverse facts into one (Benson & Dresdow 2009) and manage a broader set of interconnected capitals or actions in addition to economical ones (Sharma & Ruud 2003; IIRC 2013; Knauer & Serafeim 2014; Vesty et al. 2015; Chandler 2016). The results from the survey in this research indicate that the executives are engaged to the use of different capitals in decision-making on some level (mean value of 4,03). The company executive interview data supports the findings while also emphasizing the importance of this consideration realizing to financial benefits at some point. According to Sitra (2013), measuring the financial profitability of sustainability can be challenging when sustainability is a deeply integrated part of the business. In addition, strategic corporate social responsibility and thus sustainable value creation do not refer to addressing other goals than profit generation but instead to considering the methods used for achieving profit (Chandler 2016). As noted earlier,

investors alike see sustainability of the business as a factor fostering long term viability and new business creation. This leads to the ultimate idea of sustainability being a factor enhancing the overall business performance.

Among other than financial capital, the research participants have the greatest focus on natural capital which is visible in the large number of nodes on the issue and consideration of it from two perspectives – enhancing the environmental performance of company operations as well as the products and services provided for the customers. The significance might also be due to most people today relating the concept of sustainability to the natural environment (Chandler 2016). In addition, human as well as social and relationship capital have a great role in participants' considerations. These considerations can be signs of sustainable value creation and integrated thinking since integration of sustainability into the core business can result to improved investments into human capital, stakeholder relations, environment as well as legal compliance whereas sustainable value creation can refer to the ability to use critical resources and nurture essential relations (Ciasullo & Troisi 2012). Manufactured and intellectual capital include only a few considerations which could be due to the fact that it might be experienced more challenging to connect these issues to sustainability.

Oliver et al. (2016) suggest applying the categorization of soft versus hard systems thinking on integrated thinking. Whereas hard form refers to formal commitment and measurement through KPIs, soft form is a holistic approach with a focus on integration, relationships and interaction. The private equity firm representatives' approach clearly links more to the hard form as sustainability is being measured through for instance KPIs as well as documented and actively developed in their investments. The company executives' approach promotes also the soft form, as many of them emphasize more informal and less hierarchical ways of operating including for instance engagement of employees and informal discussions with stakeholders. These executives recognize the integration of sustainability into their businesses in many ways which also serves as evidence of soft integrated thinking.

The existing literature promotes a variety of opportunities deriving from integration of sustainable value creation into the business model, including for instance

improvements in strategy (Sitra 2013; Halme & Korpela 2014; Churet & Eccles 2014; Chandler 2016), broader view on risks (Burnett et al. 2011; Sitra 2013; SAICA 2015) and resources (Topazio 2014) as well as sustainable profitability and value creation (Schiuma & Carlucci 2007; Carlucci & Schiuma 2011; Knauer & Serafeim 2014). In addition cost efficiency (Sitra 2013), differentiation value (Sitra 2013; Chandler 2016), new sustainable products (Elke & Bos-Brouwers 2010; Halme & Korpela 2014) and improved investments into some capitals, such as human and nature (Ciasullo & Troisi 2012) are found. The findings from this research are generally aligned although partially overlapping as the participating executives primarily consider trust received from stakeholders, long term cost savings and potential for competitive advantage among the main opportunities. The research participants in general recognize sustainability as a growing trend and a relatively large number of them already consider it as an essential part of the business that needs to be taken care of. The notion of sustainability trend is also being supported in the majority of the existing literature used in this study.

In many cases, the CEO or top management commitment to sustainability is considered to result in deeper integration and management of sustainability issues within the company (Eccles et al. 2012; Knauer & Serafeim 2014; SAICA 2015; Vesty et al. 2015). Although not addressed separately in data collection, this commitment was mentioned by three research participants. This provides evidence of the existence of the causal relationship, however, further research would be needed to provide a more in-detail analysis.

Considerations related to stakeholders hold an essential role in both existing literature as well as the findings of this research. Addressing stakeholder concerns and emphasizing engagement are crucial to strategic responsibility (Renneboog et al. 2008; Sitra 2013; Chandler 2016). Co-operation with stakeholders is also recognized as an essential part of sustainable value creation (Elke & Bos-Brouwers 2010; Ciasullo & Troisi 2012; Demartini et al. 2015). Stakeholder considerations also hold an essential role within the concept of integrated thinking (IIRC 2013; Churet & Eccles 2014; Knauer & Serafeim 2014; SAICA 2015; Vesty et al. 2015). Although the statement related to stakeholder consideration and engagement in the survey resulted in a relatively low mean value (3,69) in comparison to other statements, the

responses and interviews give evidence of various related practices such as selection of suppliers with similar values, open discussion, events or initiatives and support for local communities. The executives consider the demands expressed by stakeholders and building of trust with them among the main initiators towards sustainable value creation. The results give evidence that stakeholder groups are recognized and some ways for engagement exist, however these may not follow a strict plan or structure hence also giving evidence of soft integrated thinking approach. Within the investor perspective, value-creation theory emphasizes the minimization of conflicts between stakeholders (Yu & Zhao 2015) whereas according to Burnett et al. (2011), sustainability-directed policies benefit a variety of stakeholders. The findings of this research are somewhat supportive, recognizing mainly the growing pressure towards responsible investment policies as well as the need for communicating practices related to responsibility also externally.

6.3 Managerial implications

The findings encourage the management to look into the business potential arising from the profound engagement to sustainable value creation as well as the shift towards a business model with sustainability integrated. This provides a variety of opportunities with the potential to improve business performance, such as differentiation value, better view on resources and risks as well as enhanced level of trust in relation to stakeholders. In addition, the integration and sustainable value creation further adapting a long term approach which helps conducting business with an orientation covering different timespans and might result to cost savings on long term for instance through avoiding reputational crises or having processes that use resources more effectively. Based on the findings, such an orientation towards sustainability can result to increased level of company attractiveness as an investment perceived by investors. Hence, it might enhance the probability for finding external financing to support company growth.

The findings also encourage the senior management to actively consider all types of capital in their decision-making and management processes to explore the full variety of opportunities related to value creation in their organization. It is suggested to consider these issues with a business approach, referring to how these capitals can

further the goals and objectives the organization has and thus also enhance opportunities for profit generation. According to this study, both the management of these companies as well as the private equity firms developing the sustainability aspects in their investments tend to choose a certain angle or theme to sustainability. Hence, not all aspects on sustainability should be placed a high focus on and not all capital types should be equally addressed. Instead, the senior management should consider what types of value and which capitals are the most relevant ones considering their industry as well as the company objectives. Emphasis on these capitals and consideration of the sustainability issues in their context should result in maximal sustainable value creation.

An integral part of sustainable value creation and integrated thinking is drawing the senior management attention towards stakeholder considerations. The findings indicate that through addressing stakeholder concerns and engaging them into operations, it is possible to enhance the overall business performance. Building of trust between the company and its stakeholders as well as for instance selection of suppliers and other co-operation partners with shared values are among the ways to address stakeholder concerns and engage them. In addition, a growing pressure and even demand towards sustainability issues expressed by the stakeholders is recognized. Though engaging their stakeholders, companies can enhance their learning on these concerns which then helps them to address the constantly changing interests of these groups. This allows being better prepared to possible risks as well as opportunities that might rise. Providing new ways of engagement alongside the existing ones can give the stakeholders the feeling of being appreciated and taken care of, and such satisfaction in turn might later on enhance the company performance. The company executives taking part to this research mainly do not indicate having structured processes for engaging their stakeholders. However, as long as the topic is high on the agenda across the whole organization such processes are not obligatory in any way – a lack of them might actually give evidence of the presence of soft integrated thinking approach in the organization.

This research provides a variety of evidence of the growing importance of considering sustainability issues as a part of business performance. The findings indicate that in many industries engagement to sustainability is no longer a topic

which companies either choose to address or choose to leave out of their considerations. Instead, it is constantly more seen as an essential part of all business processes, a complete must-have if the company wishes to stay on board in the competition. The research also sheds some light on the possible risks that might result from companies neglecting these issues. These include for instance losing either customers or stakeholders' trust or entering reputational problems with potential to harm the brand. The interviewed private equity firm representatives clearly emphasize the risk approach in their considerations. Before committing to an investment, the possible investment goes under in-depth investigation. If any great sustainability-related risks arise during this process, the investors will immediately withdraw and stop the investment process. This demonstrates well how companies neglecting the sustainability approach expose themselves to the risk of facing severe problems within finding external financing to grow their operations. Such an example underlines the role of sustainability in the overall company performance. As a whole, the risks related to neglecting sustainability as a part of company strategy and operations given above suggest that in today's world the ability of senior management to involve sustainability considerations with long term orientation into their business is vital for the success of their organization.

6.4 Limitations of the research and propositions for future research

As the research aims to explore individuals' experiences and thoughts on a selected phenomenon, it does not have the objective to produce generalized results applying a certain population. Despite of the notion certain limitations need to be considered in terms of this research. Within the survey, loss and perceived generally low motivation towards responding were visible both in the number and length of the responses. It could be that for instance, although using a random sample, those companies more engaged into sustainability topics are more eager to answer. The short length of some of the responses sets a challenge for conducting a proper analysis. Also, the different organisational roles of the executives might play a role in the way the respondents understand and answer to the questions. Content-related limitations cover both the survey and the interviews. The instructions might have not been read or understood in a similar way or the participants might have differing interpretations of the key concepts. The questions or statements might be understood

in different ways which affects the answers. Within the company executives interviewed, one of the participants represents an organization that does not, based on turnover, officially fit the Statistics Finland definition of medium sized enterprises. However, as the difference is not significant (turnover of the company A 59,5 MEUR), this is considered a factor not affecting the reliability of the results. The final number of participants can still be considered relatively low and hence conducting more interviews and using a larger sample for the survey would allow creating a more coherent overview of the phenomenon and the ways people experience it. In terms of the existing literature used for this research, using some non-scientific literature might also be considered a factor affecting the research.

One option for future research would be conducting a comparative analysis around the topic between companies of different size, in different countries or different industries. Such research has the potential to shed light on the factors that affect organizations' motivation to integrate sustainability into their business model and provide more in-detail information on what are the most crucial capital types in terms of sustainability in different contexts. In addition, the relationship between the integration of sustainability into the business model and received external financing in the context of small or medium sized enterprises would be a potential area for further exploration. This could increase the understanding of senior management of the factors that have an effect on their companies' abilities for executing growth through external financing. Lastly, as noted the existing literature gives evidence of the critical role of senior management commitment in keeping sustainability issues high on the company agenda. A research exploring the role of such commitment could result in increased understanding of the motivational factors behind enhanced sustainability performance.

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APPENDIX 1

Questionnaire form

Sustainable value creation in Finnish medium sized enterprises

The purpose of this questionnaire is to collect further information on sustainable value creation in Finnish medium sized enterprises. In here sustainable value creation refers to the value created by an organization that is financially, environmentally and socially sustainable when also considering different time spans (short, medium and long term). In addition to financial value, a company can also create value related to human, natural, social and relationship, manufactured and intellectual capital. A company can create value either to itself or for its external stakeholder groups.

Sustainable value created by the company can be related to for example the building of a sustainable supply chain through certificates, effective use of natural resources or support provided to local communities through for example job opportunities. Sustainability should be integrated into the heart of the business, thus here it does not refer solely to charity. Sustainable value creation can also refer to for example a product or a service of a company which helps its user to reduce their environmental effect.

Responding to the survey should take approximately 10-15 minutes. Your response is important for the research. Thank you for your efforts!

Part 1: Multiple choice questions

1. Multiple choice questions

Below are five statements. Please choose for each one, how well do you think that the statement describes your company and the way it operates. The scale is from 1 to 5, in which 1 = strongly disagree, 2 = somewhat disagree 3 = neither agree or disagree, 4 = somewhat agree and 5 = strongly agree.

- Sustainability (financial, environmental, social) is effectively integrated into our business
- Our organization has been successful in creating sustainable value during the last 3 years
- We actively use also other than financial value to support our decision-making *Such value can be related to human, natural, social and relationship, manufactured and intellectual capital*
- We attempt to actively consider our stakeholder groups and involve them into our decision-making
- We believe it is important to consider our company's ability to create sustainable value on *short term*
- We believe it is important to consider our company's ability to create sustainable value on *long term*
- Sustainable value creation helps us advance our organizational goals
- Our whole organization is committed to sustainable value creation
- Commitment to sustainability and sustainable value creation helps us to do overall better business

Part 2: Open questions

Below are two questions in which you can discuss sustainable value creation in your company. Please provide as detailed answers as possible.

2. Can you describe how has your organization been successful in sustainable value creation during the last 3 years? You may tell one or more occasions or processes. Such value can be related to financial, human, natural, manufactured, social and relationship as well as intellectual capital.

3. Considering the context of your company, how do you see the role of sustainable value creation? Here you may consider for example its advantages as well as the possible challenges it sets for the business.

Part 3: Possible further comments and the use of company information

4. Possible further comments: In here you can write more about sustainable value creation in your company. You may use the themes from part one as your guideline. You may also write here about any other possible topics you would like me to take into account in the research.

5. The use of company information in the research: The name and basic information of my company can be mentioned in the research. This information will not be connected to the responses.

Interviews with the executives in Finnish medium sized enterprises

Theme 1: Integrating sustainability into the business model

Do you consider sustainability being clearly integrated into your business model and if yes, how? Could you describe in which ways does your company create sustainable value to itself and its stakeholder groups? Do you consider sustainability as a source of competitive advantage or a necessity? Does it help making better business?

Theme 2: Integrated decision-making and value creation – considering also other than financial capital as well as different timespans

Do you consider also other capitals than financial ones in your decision-making and value creation processes (natural, human, manufactured, intellectual and social & relationship)? Does the consideration cover different time spans (short, medium, long)?

Theme 3: Internal and external stakeholder engagement to sustainable value creation and collaboration with stakeholders

Could you describe your most important internal and external stakeholder groups' commitment to sustainable value creation? Do they expect sustainability from the company? Do you engage them into decision-making?

Interviews with the representatives in private equity firms

Theme 1: The role of sustainability in investment decisions

Are companies engaged to sustainable value creation through integrated thinking more attractive investments when compared to companies that do not emphasize sustainability in their operations? How is the role of sustainability like in investment decisions? Does it have a certain weight in your investment criteria? Can high commitment to sustainability increase the attractiveness of the company so that it affects even more than the weight would initially allow it to? Can neglecting sustainability alone be a reason to decline from an investment?

Theme 2: Creating value with sustainability and measuring it

In what ways do you measure or evaluate the sustainability of a company through the life cycle of your investment, meaning the different phases such as acquisition, development of operations and exit? Do you have process for measuring the value of sustainability that has been created during the time of your investment in a company? Do you feel that commitment to sustainability is a factor that affects the company value significantly, in other words, that increases the company's price and attractiveness in the exit phase? Can neglecting sustainability decrease the company value significantly? Could you describe your experiences in such situations where sustainability or the lack of it have in your opinion affected the company value?

Theme 3: Developing the sustainability practices in investments

Have you for example while being a member of the board actively worked towards the development of sustainability issues in a company with the target of increasing the company value? Do you have successful experiences of such situations? In what ways has the company sustainability been developed in these situations?