



JÖNKÖPING UNIVERSITY  
*Jönköping International  
Business School*

# How do corporations develop and implement ESG Strategies?

An exploratory multiple-case study of the automotive manufacturing industry.

**BACHELOR THESIS WITHIN:** Business Administration

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Jacob Lexe, Jönköping, May 19, 2023



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# Bachelor Thesis in Business Administration

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## Abstract

**Background:** An increasing number of corporations adopt ESG practices into their corporate strategies and follow the principles of sustainable development. At the same time, many encounter difficulties in implementing ESG practices and lack the skills required to design projects including the implementation of sustainable practices. In this context, understanding the factors influencing the implementation process of ESG practices is essential.

**Purpose:** The purpose of this thesis was to examine how corporations develop and implement Environmental, Social, and Governance (ESG) strategies. The aim was to explore the factors that influence and contribute to the successful implementation and pursuit of these strategies.

**Methodology:** This exploratory multiple-case study aimed at exploring corporations within the automotive manufacturing industry, Volvo Cars and Scania AB, and how they proceed in developing and implementing ESG strategies. Primary data in qualitative form was collected through semi-structured interviews and was thereafter analyzed through a thematic coding analysis to identify overarching key areas. An abductive approach was adopted, which enabled the authors to move back and forth between collected data and theory, to enhance the precision and enable further research opportunities.

**Conclusion:** Various factors such as institutional pressures, the alignment of interest between agents and principals, and stakeholder inclusion and expectations, have an impact on the creation and execution of corporate ESG strategies. A long-term orientation combined with flexible management approaches and the incorporation of ESG factors in KPIs and reward programs can contribute to a successful development and implementation process.

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# 1.0 Introduction

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*This section provides a background to the research question as well as an introduction to the problem discussion and the purpose of this study.*

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## 1.1 Background

Over the past few years, there has been a noticeable shift in corporations' focus from purely profit-maximizing to incorporating non-financial issues to enhance their overall value (Liang & Renneboog, 2017). This shift can be seen because of increasing pressure from society and the importance of conforming to social norms, values, and rules, to stay relevant and legitimate (DiMaggio & Powell, 2000). Corporate sustainability is vastly studied and widely discussed due to the increasing threat and awareness of climate change. Most existing literature and research in the area centers around the idea of deeply integrating sustainability into the core of the business model, such as Stakeholder Theory, Elkington's Tripple Bottom Line (1997), or Landrum's (2018) Stages of Corporate Sustainability, to make sure that sustainability aspects are incorporated in every major business decision. To enhance sustainability efforts, corporations, and especially managers, must work towards realistic and more importantly understandable targets. Thus, the need to break down long-term goals and visions into more practical and tangible targets emerges.

Environmental, Social, and Governance (ESG) factors, commonly referred to as sustainability metrics, have recently increased in popularity both among corporations as well as investors and regulators. There is no doubt that ESG aspects have grown increasingly significant to key stakeholders in the ecosystem of public companies, regardless of one's opinion on whether ESG activities are a fad or a forward-thinking trend that continues to gather up momentum (Storero & Barychev, 2022). According to McKinsey (2023) internet searches on "ESG" has increased by more than five times since 2019 whilst searches for Corporate Social Responsibility "CSR", its predecessor, have declined. Although there are many tools and frameworks on how to measure sustainability performance, ESG ratings are currently the most used sustainability rating system in the financial markets. ESG ratings are provided by third-party institutions such as Deloitte, Morningstar, and Sustainalytics as a way of ranking and measuring corporations on non-financial aspects that have an impact on people and the planet. Efforts in improving ESG performance, such as the incorporation of stakeholder aspects, have been shown to have

a positive impact on risk mitigation, value-creation, and even financial performance (Freeman et al., 2004; Porter & Kramer, 2011; Agarwal et al., 2022; Li et al., 2017). While an exclusion of such may lead to diminishing financial returns, employee dissatisfaction, and increased risk (Zhang et al., 2019). With increasing pressure from investors, financial institutions, consumers, employees, and other societal stakeholders, the need to incorporate ESG aspects in corporate strategy is rapidly growing (Breuer & Nau, 2014). However, the “how to” of incorporating these aspects remains somewhat unexplored. As argued by Epstein & Roy (2001), it is no longer a debate on whether to implement sustainability or not, but rather on the practical issues: how do we implement sustainability? To effectively implement ESG strategies, corporations must address potential barriers related to corporate strategy, processes, culture, and communication. Including aligning ESG goals with overall corporate objectives, ensuring that processes support ESG integration, fostering a culture of sustainability, and communicating ESG initiatives and progress to stakeholders (Epstein & Buhovac, 2010).

## 1.2 Problematization

According to Navex.com (2023), almost 90% of all publicly traded companies have ESG initiatives in place, but only around 50% believe their firm performs efficiently in these fields. Despite the emphasis on conceptual analysis in corporate sustainability research, the practical implementation aspect remains under-explored (Baumgartner, 2014; Klettner et al., 2014). Both Baumgartner (2014) and Klettner et al. (2014) highlight the scarcity of literature on implementing corporate sustainability strategies and call for more empirical research. They suggest that case studies and qualitative research methods could significantly contribute to the field. Widely recognized sustainability models and frameworks such as the Tripple Bottom Line (Elkington, 1997), the Doughnut Model (Doughnut Economics Action Lab, 2023), and the UN Sustainable Development Goals (United Nations, 2023) all recognize the importance of Environmental, Social, and Governance aspects and the need for a holistic approach to sustainability. However, the process of how to implement these factors remains somewhat unexplored. As such, there is an increasing need to understand how corporations identify, determine, and ultimately implement these strategies. Without such knowledge, moving from strategy development to implementation may prove to be a difficult task. Additionally, understanding the factors influencing the development and implementation process of ESG strategies may help minimize conflicts of interest, thus enabling corporations to better pursue their objectives.

### 1.3 Purpose

The purpose of this thesis is to examine the key factors that influence the development and implementation of environmental, social, and governance (ESG) strategies in corporations. As ESG aspects are becoming increasingly important to investors, customers, employees, and other stakeholders, the need to understand how corporations develop and implement ESG strategies increases. ESG factors can have a significant impact on a company's reputation, financial performance, and long-term sustainability. By studying influencing factors of the development and implementation of ESG strategies, this paper aims to provide insight into best practices for companies looking to develop and implement effective ESG strategies. This can help corporations improve their ESG performance, better meet stakeholder expectations, and enhance their overall sustainability performance. Understanding how ESG strategies impact corporate performance and stakeholder outcomes can also provide valuable insights for investors, policymakers, and other stakeholders. For example, investors may be interested in how ESG strategies impact a corporation's financial performance and risk profile while policymakers may be more interested in how ESG strategies can be used to promote sustainable economic growth and reduce social and environmental risks.

## 2.0 Literature Review

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*The aim of this chapter is to provide a clear understanding of Environmental, Social, and Governance aspects in corporate decision-making and the most important factors of influence regarding the development and implementation of such aspects based on existing literature and research.*

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### 2.1 Method

Literature search is defined as a systematic procedure with the aim of gaining an understanding of a particular topic or phenomena (Collis & Hussey, 2014). It was therefore essential for the authors to investigate academic literature within the field of ESG strategy development and implementation, as well as other relevant aspects in relation to this. The existing literature guided the authors in realizing an understanding of various segments within ESG strategies which enabled the authors in proceeding with the research. Nevertheless, Collis and Hussey (2014) highlighted the complexities in finding high-quality literature and the importance of researchers to maintain selective regarding what sources to include.

To identify relevant and high-quality literature, the authors used the Primo database through Jönköping University. The Primo database allowed the authors to search as narrowly as possible with the usage of various combinations of keywords and, as the interest involved ESG strategy development and implementation, searches were associated accordingly. Initially, the authors adopted a wide perspective on ESG strategies, with intentions to narrow it down as proceeded. As this exploratory multiple-case study was taken from an abductive approach, the interviews with Axfood, Volvo Cars, and Scania introduced additional concepts they believed influenced ESG strategies, which furthermore generated an iterative construction of the literature review. To ensure the highest possible quality of literature, the authors aimed to include literature that has been published in journals from the ABS list to the highest extent possible. This research desired to collect various types of perspectives, and in order to not exclude important views and insights that might contribute to the understanding of the phenomenon, exceptions to the ABS list occurred. Regardless, during exceptions, the authors made efforts in ensuring high-quality literature by investigating the authors and publisher. To reduce the number of results further, the authors used Primo filters. One particular filter

incorporated was the “peer-reviewed” filter, which indicated third-party quality assurance by an academic.

Other methods in the search and identification of high-quality literature that were used in this research were the snowball method and expert consultation. The snowball method was an effective method of starting off from a handful of high-quality academic papers and examining those papers’ references, to thereafter identify additional literature used (Collis & Hussey, 2014). The authors were also able to gather relevant literature through previous course readings within courses taken at Jönköping University such as Collis and Hussey (2014) as well as discussions with experienced professors that have provided relevant research.

## 2.2 Defining Environmental, Social, and Governance

Environmental, social, and governance (ESG) strategies have emerged as a way for corporations to address their activities concerning environmental impact, social sustainability, and governance. As an expansion of the Corporate Social Responsibility (CSR) concept, ESG provides non-financial information, enabling investors and managers to better evaluate risks and opportunities related to ESG issues (Breuer & Nau, 2014; De Silva Lukuawaduge & Heenetigala, 2017; Jagannathan et al., 2017). The development of ESG reporting emerged as a response to the limitations of traditional financial reporting. ESG practices and disclosure prepare corporations and stakeholders for risks related to the global climate crisis, changes in regulations, and consumer behavior (Bassen & Kovacs, 2008; Jagannathan et al., 2017). Additionally, ESG reporting frameworks, such as the Global Reporting Initiative (GRI), provide structured guidelines for communicating ESG issues and impacts (GRI, 2023; Marimon et al., 2012; Chen et al., 2015a). The three pillars of ESG encompass a corporation's dedication to sustainability and its environmental impact, the internal workplace culture focusing on employee satisfaction, retention, diversity, workplace conditions, health and safety, and the commitment to compliance, internal corporate culture, pay ratios, ethics, transparency, and accountability in leadership. As such, ESG strategies are not just about sustainable business practices but also about creating a corporate culture that values equity, equality, and compliance (White, 2018).

The theoretical perspectives of stakeholder theory, agency theory, and institutional theory provide a critical lens for understanding and implementing ESG strategies. For example, stakeholder theory implies that corporations should consider the interests of all stakeholders, promoting sustainable economic, social, and environmental development (Freeman et al.,

2004; Joyce & Paquin, 2016; Porter & Kramer, 2011; Linnenluecke & Griffiths, 2010; Grunwald & Fischer, 2022; Freudenreich et al., 2020). This has particular relevance in ESG strategies, as it acknowledges the importance of environmental, social, and governance factors in business decision-making. Moreover, agency theory, as argued by Jensen and Meckling (1976), and further elaborated by Bebchuk and Fried (2003), identifies potential conflicts of interest and 'agency problems' arising from the separation of ownership and control. This perspective can shape ESG strategies by highlighting the need for aligning managerial incentives with ESG goals which is a key aspect of the governance dimension (Bebchuk & Fried, 2003).

Furthermore, institutional theory emphasizes the role of social norms, values, and rules in shaping corporations' behavior (Meyer & Rowan, 1977; DiMaggio & Powell, 2000). Thus, highlighting the role of regulative, normative, and cognitive institutions in shaping corporate behavior, making it crucial to the successful implementation of ESG strategies (Scott, 2014; Jakobsen, 2015). The successful integration of ESG strategies requires a comprehensive understanding of the surroundings that shape our society and ultimately the strategic direction of corporations. As corporations increasingly recognize the importance of ESG factors, the correlation of these theoretical perspectives will continue to provide valuable insights into the dynamics of ESG activities and sustainable business practices.

### 2.3 Drivers, Motivators, and Barriers

The interest in ESG integration is growing, and it is increasingly being used by investors and capital providers in their investment decisions (Pedersen et al., 2021; White, 2018). According to Agarwal et al. (2022), organizations with high ESG values demonstrate reduced risks, high yields, and increased resilience during emergencies. They also argue that there is a direct connection between ESG scores and financial performance, implying that improving ESG performance can enhance the economic performance of a firm (Agarwal et al., 2022). Li et al. (2017) support the argument that ESG disclosure benefits both financial investors and other stakeholders, enabling an analysis of a firm's profitability and stakeholder satisfaction. Giese et al. (2019) emphasize that ESG integration is critical for investors and corporations to be risk-averse, resilient, and maintain strong financial performance. They argue that organizations with strong ESG practices are more likely to generate long-term value and realize lower corporate and financial risk. Moreover, Wong et al. (2021) highlight the role of ESG ratings in socially responsible investing, presenting empirical evidence that organizations with ESG certification receive debt financing at lower rates, reducing the organization's cost of capital. Furthermore,

The Global Reporting Initiative (GRI) has become a widely recognized framework for corporations to communicate their ESG performance and impacts, allowing them to take responsibility and enhance overall sustainability performance (GRI, 2023; Marimon et al., 2012; Chen et al., 2015b). ESG ratings, provided by specialized rating institutions, enable comparisons between organizations and inform investment decisions (Dorfleitner et al., 2015; Pedersen et al., 2021; White, 2018).

Despite apparent benefits of ESG integration and disclosure, several challenges and criticisms have been raised. Andersson and Dumay (2021) argue that while both the quantity and quality of corporate ESG reporting have increased, actual corporate ESG performance has remained flat. They argue that there is little hope that ESG reporting will result in significant changes to corporate behavior as it is not driven by voluntary or mandatory reporting (Arvidsson & Dumay, 2021). Some research also claims that ESG information lacks qualitative aspects such as relevance, comparability, and credibility, leaving it irrelevant in financial decision-making (Abhayawansa et al., 2019; Avidsson, 2014; Cho et al., 2015). Instead, Hepburn et al. (2020) argue that policymakers should focus on implementing policies with actual social and environmental impacts rather than improving corporate reporting policies that have no impact on corporate ESG performance.

## 2.4 Corporate Governance

Corporate governance is broadly defined as “the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated” (Blair, 1995). It refers to the system of rules, practices, and processes that corporations are directed and controlled by and covers the mechanisms through which corporations set and achieve their objectives and performance (OECD, 2015). From a stakeholder perspective, corporate governance strategies should not only focus on increasing efficiency and ultimately profits for its shareholders but must include environmental and social considerations as well. Aguilera et al. (2021) emphasize the importance of considering multiple dimensions of corporate governance, including board composition, ownership structure, executive compensation, regulatory frameworks, and the complexity of the relationship between corporate governance and environmental sustainability. Corporate governance variables are significantly related to sustainability and effective stakeholder management can enable significant contributions to corporation’s efficiency, effectiveness, and reputation (Mason & Simmons, 2014). High sustainability performance in business requires significant

investments and long-term strategies, which in turn can impact corporation's capital structure and profitability. Additionally, promoting environmental sustainability requires coordination across multiple levels, including the corporation itself, its supply chain, and engaging with other stakeholders. As a result, corporate governance mechanisms are increasingly being used to control and monitor not just financial performance, but also environmental and social impact (Naciti et al. 2021; Kavadis & Thomsen, 2022).

Encouraging corporations to adopt sustainable strategies is not only a matter of ethical relevance but can also yield positive returns in terms of economic performance, corporate efficiency, competitive advantage, and improved reputation. This makes sustainability an attractive option for businesses (Kotabe & Murray, 2004; Kavadis & Thomsen, 2022) as well as potentially solving agency conflicts by aligning financial and non-financial goals. Mason & Simmons (2014) propose a stakeholder systems approach to embedding environmental and social aspects in corporate governance. To increase corporate efficiency, the board of directors should aim to set long-term goals and visions based on an understanding and adherence to stakeholder expectations, claims, and agendas. *"The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises"* (OECD, 2015). Once long-term goals and visions of a corporation are set, the next step is to ensure internal compliance, which can be facilitated by integrating sustainability issues into management control systems (MCS) (Adib et al., 2020). Lastly, sustainable corporate governance strategies should ensure transparency and accountability both internally and externally through the evaluation and reporting of outcomes (Mason & Simmons, 2014).

## 2.5 Developing ESG Strategies

A well-executed ESG plan can increase business efficiency while accomplishing larger purposes (Storero & Barychey, 2022). In contrast, weak ESG strategies may lead to reduced ESG scores, lower employee engagement, customer dissatisfaction, and decreased financial performance (Zhang et al., 2019). The importance of incorporating ESG strategies and transparent ESG reporting is growing rapidly, as shown by the Securities and Exchange Commission's introduction of a Climate and ESG Task Force, which highlights tighter rules and regulations related to ESG disclosures and climate change (Storero & Barychey, 2022). In a study by Jasni et al. (2020), effective ESG strategies and their corporate benefits were investigated by comparing telecommunication companies. The researchers identified a pattern

of ESG disclosure that signals an efficient strategy, including Environmental Management Systems, Waste, Climate Change, Energy Efficiency, Social Education & Training, Health & Safety Management, Community Development, Audit Contract, Report & Selection, Chairman and CEO separation & Audit, and Risk Committee.

Developing an effective ESG strategy requires a multistep process (Storero & Barychey, 2022). Organizations must: Allocate resources to identify ESG risks and opportunities. Understanding the risks and opportunities associated with ESG is crucial for each organization, even if their objectives may vary (Storero & Barychey, 2022). Furthermore, corporations should integrate ESG procedures into the organization's long-term strategic plan, risk management processes, and culture. This step demonstrates how ESG initiatives align with corporation's goals and vision, and how to achieve them. Corporations should also communicate their ESG strategy consistently to critical stakeholders and be transparent in their communication and reporting of ESG initiatives thus fostering trust and credibility among stakeholders (Eccles & Serafeim, 2013). Ensuring that the company board supervises the management's wide-ranging implementation of the ESG strategy in combination with active board oversight can help promote accountability and ensure the ESG strategy is effectively integrated into the corporation's operations (Ioannou & Serafeim, 2019). To effectively involve ESG initiatives across the corporation, strong commitment from senior management is required to act as role models (Storero & Barychey, 2022). Additionally, it is essential to establish ESG metrics and adopt measurement software and tools to track the progress of the ESG strategy (Storero & Barychey, 2022). Moreover, corporations should consider industry-specific ESG standards and benchmarks. For example, the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) provide sector-specific guidance on ESG reporting and performance measurement (GRI, 2021; SASB, 2021). Collaboration and partnerships can also play a vital role in developing and implementing ESG strategies. For example, the United Nations Global Compact, a voluntary initiative based on CEO commitments to implement universal sustainability principles, encourages businesses to collaborate and share best practices on ESG initiatives (UN Global Compact, 2021).

## 2.6 Implementing ESG Strategies

Storero and Barychev (2022) further emphasize the importance of clear and consistent communication with investors and other stakeholders in implementing and maintaining successful ESG strategies. As focus on environmental, social, and governance factors increases, relying solely on annual sustainability reports is insufficient. Corporations must find

new and innovative ways to disclose ESG information to all stakeholders (Fatemi et al. 2017). Frequent disclosure of ESG factors helps minimize misalignment and misinterpretations throughout the process. To maximize the chances of a successful implementation process, Storero and Barychev (2022) suggest identifying key employees within each area of the strategy. Assigning responsibility to specific groups enables corporations to better oversee the process, which is also an essential factor. Similarly, Windolph et al. (2014) highlight the importance of top management commitment and stakeholder engagement in driving the successful implementation of sustainability management practices in corporations. Schneider et al. (2014) propose that corporations must have strong communication and leadership practices to ensure effective implementation of ESG strategies as communication helps stakeholders understand sustainability initiatives, their goals, and expected outcomes. Furthermore, effective leadership promotes a culture of sustainability within the corporation, facilitating the successful implementation of sustainability practices.

In addition to the previously mentioned factors, other components may contribute to the successful implementation of ESG strategies. For instance, providing employees with the necessary knowledge and skills on ESG issues is essential for effective implementation (Hahn & Kühnen, 2013). This can be achieved through regular training programs and workshops that focus on relevant ESG topics. Establishing clear ESG performance indicators and regularly monitoring progress can help corporations track their performance and make necessary adjustments to their strategies (Eccles et al., 2014). This can be achieved through the use of ESG scorecards or other performance measurement tools. Moreover, embedding ESG considerations into the organization's decision-making processes ensures that sustainability is not treated as an afterthought (Eccles et al., 2012). This can involve integrating ESG factors into capital budgeting, strategic planning, and operational decision-making. Another key factor in the pursuit of corporate sustainability is the need to align executive compensation with ESG performance which can encourage commitment to ESG initiatives from the top management (Ioannou & Serafeim, 2015). This can include incorporating ESG targets into executive bonus schemes or implementing long-term incentive plans based on ESG performance. Furthermore, transparently reporting ESG performance can enhance credibility of the organization's sustainability efforts and build trust with stakeholders (Eccles & Serafeim, 2013) which can involve adopting recognized sustainability reporting frameworks, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB). Engaging with stakeholders such as suppliers, customers, and local communities can provide valuable insights

into corporations' ESG concerns and expectations (Freeman et al., 2004). This may help corporations tailor their ESG strategies to address stakeholder concerns and foster stakeholder trust. Lastly, learning from the experiences of other organizations and adopting best practices in ESG implementation can help corporations improve their own ESG performance (Klettner et al., 2014). This may be done by participating in industry forums, attending conferences, or benchmarking against industry peers. Organizations should also be committed to continually improving their ESG performance and should be open to reevaluating and adjusting their ESG strategies as needed (Montiel & Delgado-Ceballos, 2014).

## 2.7 Moving from Strategy to Action

Strategic management comprises two essential phases: strategy formulation, which develops the strategy, and strategy implementation, which focuses on practical aspects (Gómez-Guillamón et al., 2016). According to Epstein and Roy (2001), bridging the gap between corporate sustainability strategy formulation and implementation necessitates translating strategy into action. The establishment of plans and programs is crucial for defining ESG goals and objectives and in combination with suitable performance indicators, they form the foundation for successful measurement. This translation is enabled by the development of appropriate plans, programs, systems, and performance indicators.

Epstein and Roy (2001) present a model that outlines the drivers of sustainability performance, and the actions managers can undertake to influence and monitor performance. This model highlights the importance of understanding sustainability performance drivers and their impact on stakeholders and financial performance. To bridge the gap between corporate sustainability strategy and implementation, they argue that strategy must be translated into action through the development of appropriate plans, programs, systems, and performance indicators. Implementing management systems like ISO 14001 and Environmental Management Systems (EMS) can offer guidance for directing environmental strategy implementation (Epstein & Roy, 2001). Furthermore, Epstein & Roy (2001) and Gond et al., (2012) argue that Management Control Systems (MCS) play a vital role in implementing strategies for sustainable development as they enable the alignment of employee behavior with organizational objectives and provide information for decision-making and performance evaluation. Similarly, Beusch et al. (2022) propose a framework for integrated MCS that supports corporations in pursuing sustainability goals, consisting of strategy and objectives, performance measurement and reporting, incentives, and accountability, and learning and adaptation. They identify factors such as holistic orientation, stakeholder engagement, and continuous improvement as

important in the successful integration of sustainability into MCSs. Effective MCS for sustainability requires corporations to engage with a diverse range of stakeholders, including employees, customers, suppliers, and investors. By involving stakeholders in the development and implementation of sustainability initiatives, corporations can enhance credibility of their efforts and ensure that their MCS aligns with the expectations and needs of relevant stakeholders (Beusch et al., 2022). In contrast to this, Nathan (2010) suggests that factors such as leadership, organizational culture, best practices, reward systems, governance, ethics, and policies may all help bridge the gap between corporate sustainability strategy formulation and implementation.

Epstein and Buhovac (2010) suggest a four-step process for bridging the gap between sustainability strategy formulation and implementation, which involves setting sustainability goals, developing a sustainability strategy, creating a sustainability management system, implementing and evaluating the strategy. They argue that corporations must address potential barriers related to corporate strategies such as complex processes, work culture, and communication. This is in alignment with Li et al. (2008) who identify communication, structure, culture, and people as key factors in the implementation of sustainability strategies. Contrarily, Engert and Baumgartner (2016) identify four key challenges in integrating sustainability into corporate strategies: the complexity of sustainability issues, the need for long-term orientation, the importance of stakeholder engagement, and the lack of coherence between strategy formulation and implementation. Arguing that a combination of top-down and bottom-up approaches, involving both management commitment and employee engagement, is required for successful integration.

Based on the literature review, a model for developing and implementing ESG strategies can be developed by incorporating the most critical factors discussed.

### **Strategy Formulation:**

In the process of formulating a sustainability, or ESG strategy, corporations should set clear, measurable, and time-bound goals and ensure alignment with overall corporate objectives (Epstein & Buhovac, 2010; Beusch et al., 2022). In addition to this, it is crucial to identify and include diverse stakeholders and their needs, such as employees, customers, suppliers, and investors when formulating a sustainability strategy (Engert et al., 2016).

**Strategy Implementation:**

In terms of implementing the strategy, corporations need to develop a comprehensive plan by establishing appropriate structures and management systems (Epstein & Buhovac, 2010; Epstein & Roy, 2001). Furthermore, it is suggested that corporations adopt a flexible governance approach, for example by combining top-down and bottom-up structures, to increase management commitment and employee engagement (Engert & Baumgartner, 2016).

**Performance Measurement and Reporting:**

Creating integrated performance indicators that capture financial and non-financial aspects as well as following industry-specific standards and benchmarks such as the GRI could help corporations to better pursue their ESG goals (Beusch et al, 2022; GRI, 2023).

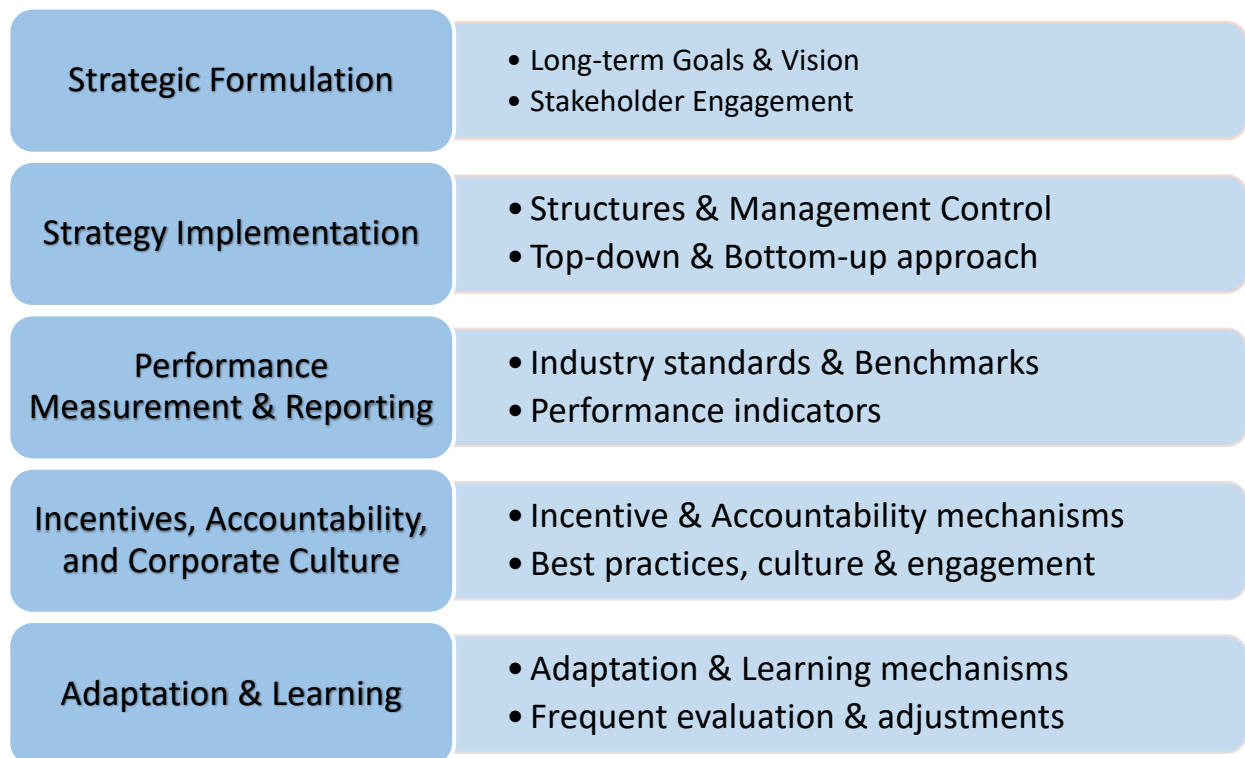
**Incentives, Accountability, and Corporate Culture:**

Implementing incentive and accountability mechanisms that align employee behavior with ESG objectives is crucial in the pursuit of such targets (Beusch et al, 2022; Arjaliés & Mundy, 2013). Additionally, encouraging best practices and continuous improvement, thus fostering a culture of sustainability including leadership, ethics, and policies may also contribute to successfully implementing and reaching ESG goals (Nathan, 2010; Li et al., 2008).

**Adaptation and Learning:**

Regularly evaluating progress and making necessary adjustments to ensure continuous improvement and alignment with strategic goals (Epstein & Buhovac, 2010) as well as embedding learning and adaptation mechanisms within MCS (Beusch et al., 2022) may also contribute to the pursuit of ESG targets.

**Figure 1. Theoretical Framework**



## 2.7 Research question

It is evident that the successful implementation of ESG strategies requires a comprehensive approach, involving a wide range of factors, such as the integration of ESG objectives, performance measurement, reporting, incentives, and accountability. Ultimately, the successful integration of ESG strategies will depend on corporations' ability to adapt and develop in response to the evolving landscape of environmental, social, and governance issues. By understanding the key factors and challenges involved in this process, corporations can develop more effective and sustainable strategies that align with their long-term objectives and stakeholder expectations. While the literature provides valuable insights for understanding different levels of sustainability integration, they do not deeply examine specific mechanisms or key factors through which corporations can effectively achieve this integration. This paper aims to provide valuable insights into the development and implementation of ESG aspects and the surrounding factors that influence corporate behavior in this relation.

RQ: How do corporations develop and implement ESG strategies?

## 3.0 Methodology

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*This chapter concerns methodological choices chosen for this research, working as guidelines for various research procedures that strengthen the quality and transferability of this particular study. The aim of this chapter is to justify the steps taken to form and conduct this research with explanations of why those methods and procedures were chosen.*

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### 3.1 Research Methodology

The nature of research is divided into explanatory, descriptive, exploratory, or a combination of these research methodologies (Saunders et al., 2012). Researchers' choice of research methodology further determines and explains the motivation and execution of chosen method, data collection, data analysis, in order to correctly answer specific research question(s) (Adams, 2007; Saunders et al., 2012). Within this research, the authors investigated corporations' establishment and implementation of ESG practices and strategies, with aspiration of gaining valuable insights and discovering patterns or differences between corporations. Choosing exploratory research allowed the authors to examine chosen corporations Volvo Cars and Scania, to identify "how" they develop and implement ESG strategies. Instead of testing various hypotheses to be true or false, an exploratory approach enabled in-depth research and enabled the authors to identify critical aspects of ESG strategies success (Adams, 2007). Lam and Law's (2016) exploratory research of "how" corporations apply crowdfunding to renewable projects, which strengthened the authors decisions further of undertaking exploratory research. Although exploratory research does only on rare occasions produce conclusive answers, it instead enhances possibilities for further research opportunities (Collis & Hussey, 2014). Exploratory research was the most suitable alternative for this multiple-case study to facilitate 'how' corporations' ESG strategies are developed and implemented.

#### 3.1.1 Research Philosophy

Collis and Hussey (2014) presented two main paradigms of research philosophy: positivism and interpretivism. Positivism assumes that social reality is singular and objective, which is used for quantitative research. In contrast, the interpretivist paradigm assumes that social realities are multiple, subjective, and exist in one's mind (Collis & Hussey, 2014). With two philosophical assumptions in mind, ontology, and epistemology, the authors were able to justify and rationalize chosen methodological choices with greater understanding, knowledge,

and confidence (Saunders et al., 2012). In alignment with the overarching research question and choice of conducting exploratory research, this study was undertaken through the interpretivist paradigm.

Within the field of interpretivism study, epistemology concerns what researchers claim as acceptable knowledge (Saunders et al., 2012). The epistemological assumption within interpretivism states that, for this conducted research, knowledge was derived from subjective evidence from participants of the study, meaning from conducted interviews with Volvo Cars and Scania AB (Collis & Hussey, 2014). For the researchers to understand how corporations develop and implement ESG procedures and strategies, it was of critical importance to conduct subjective interviews with key individuals at the corporations.

The ontological fundamentals of interpretivism are one's understanding that social reality is subjective, socially constructed, and that multiple social realities exist (Collis & Hussey, 2014). Furthermore, Saunders et al. (2012) argued that complexities of the social world of business and management may be reduced entirely with rich insights given through interpretivism. For this multiple-case study, the ontological assumption that multiple social realities exist suggested that corporations' ESG strategies may deviate from each other's, and that multiple directions exist to successfully accomplish pre-defined ESG goals. This aspect further motivated the authors' choice of direction to undertake interpretivist research.

### 3.1.2 Abductive Research Approach

Within this research, the authors chose to form assumptions from abductive reasoning. Abductive reasoning allows repetitive process of moving back and forth between theory and collected data (Saunders et al., 2012). Thereby, the abductive reasoning in this research allowed exploring corporations' development and implementation of ESG strategies, identify patterns and themes within the topic. This reasoning allowed the authors to take well-informed assumptions based on previous and available literature, and thereafter draw assumptions that the available theories could be applicable to the research (Collis & Hussey, 2014). As the qualitative data collected guided the authors in another direction than initiated, the authors of this study were able to adjust the formed theory (Figure 1) accordingly to realize the most probable explanation (Saunders et al., 2012). This reasoning suggests that one cannot fully exclude any alternatives, which align with the interpretivist paradigm that multiple social realities exist (Collis & Hussey, 2014; Saunders et al., 2012).

## 3.2 Research Method

There are two methods of gathering data necessary for reaching well-informed research conclusions. These alternatives are either the quantitative method or the qualitative method (Saunders et al., 2012). Quantitative research is most commonly conducted within the positivist paradigm and is effective for quantifiable data which are analyzed through statistical methods (Collis & Hussey, 2014). Oppositely, qualitative research is connected to the interpretivist paradigm, aiming at collecting qualitative data to build a rich understanding of a certain phenomenon, with methods such as conducting interviews (Adams, 2007; Saunders et al., 2012).

This exploratory research was employed through the interpretivist paradigm, aimed at collecting empirical data through interviews with key individuals and therefore, qualitative data collection was most suitable for this study (Adams, 2007; Collis & Hussey, 2014; Saunders., 2012). This decision was further supported by previous exploratory research, for example, a case study employed by Zaefarian et al. (2015) that collected qualitative data on family firms. Moreover, insights collected during the comparative case study enabled comparisons between the corporations' approaches to developing and implementing ESG strategies. Contrarily, if this study was scoped from a quantitative approach, it would fail to assess the in-depth information necessary and fail to explore how corporations choose to develop and implement successful ESG strategies.

### 3.2.1 Multiple-Case Study

Case studies are used to study a particular phenomenon within a certain setting (Adams, 2007; Saunders et al., 2012). According to Adams (2007), case studies enable in-depth analysis exploring certain phenomena as it involves data collection from various departments within the same area of study. The method of conducting case studies is common within the field of business research as well as within qualitative research (Adams, 2007). For this particular study on ESG strategies, a multiple-case study on two corporations was conducted. Due to the effectiveness of case studies to collect an insightful understanding of certain contexts, the authors chose to adopt this strategy for their research (Saunders et al., 2012). Lam and Law (2016) employed a multiple case study to explore “how” crowdfunding has been applied by corporations in renewable projects and strengthened the authors' decision to undertake multiple case studies. According to Collis and Hussey (2014), a selection of multiple-case studies can also be referred to as comparative case studies. Lastly, case study strategies are most commonly

used in explanatory or exploratory research, as it is known to generate answers to research questions containing ‘how?’, ‘why?’, and ‘what?’. This further motivated the authors’ adoption of this strategy.

### 3.2.2 Case Design & Selection

Multiple-case studies, also known as comparative case studies, consist of two or more cases of study in which, in this study, researchers could identify similarities and differences across selected corporations’ ESG strategies (Adams, 2007; Collis & Hussey, 2014; Saunders et al., 2012). Moreover, considerations were aimed at identifying cases that were expected to yield similar outcomes, which implied choosing corporations within the same type of industry (Collis & Hussey, 2014; Saunders et al., 2012). This multiple-case study was scoped on publicly listed corporations within the automotive manufacturing industry with extensive operations in Sweden. Collis and Hussey (2014) emphasized the benefits of conducting case studies but furthermore discussed difficulties in accessing relevant cases to one’s study, especially during time constraints.

In terms of case selection, the strategy was based on selecting non-randomized participants and thereby through a non-probability sampling strategy (Collis & Hussey, 2014). A combination of the methods: convenience sampling and snowball sampling was used in this study. The convenient sampling method was used to find accessible participants within the time frame of the research that also obtained professional knowledge regarding sustainability and ESG strategies (Collis & Hussey, 2014). Conveniently, the author’s personal contacts were in two large corporations with extensive operations in Sweden as well as connections to employees with sustainability-focused roles. Volvo Cars and Scania AB.

After conducting the first interviews achieved through convenience sampling, the authors used the snowball sampling method by requesting additional individuals with insights from the interviewee (Collis & Hussey, 2014). At Volvo Cars, the authors aimed to interview individuals with sustainability knowledge on the factory-site level, Headquarters level, and Global environmental department, which was successfully conducted. At Scania AB, the same outcome was desired, but it was not as successful. The breakdowns may be further assessed in **Table 1**. Furthermore, **Table 2** shows each participant, the duration of each interview, as well as the interview schedule.

**Table 1: Interview breakdown by company**

Company	Number of interviews conducted
Axfood AB (pilot interview)	1
Volvo Cars	4
Scania Sverige AB	2

**Table 2: Interview Schedule & Interviewee description**

Company	Respondent	Company Role	Date	Duration
Axfood AB	Alexander Bergendorf	Head of Investor Relations	2023-03-29	09.00-10.00
Volvo Cars AB	Anne Lexe	Sustainability Coordinator	2023-05-03	15.30-16.30
	Annika Fredgren	Environment Manufacturing - Environmental Manager	2023-04-11	13.30-14.30
	Cecilia Våg	Head of Resource Efficient Business - Global Environmental Department	2023-04-11	14.30-13.30
	Linnéa Peterson	Global Sustainability - Manager sustainability materials strategy	2023-04-25	14.00-15.00
Scania AB	Manuela Greif	Sustainability Controller and Developer	2023-04-06	13.00-14.00
	Maria Bodingh Johansson	Engineering Expert Environmental Sustainability	2023-04-28	13.00-14.00

### 3.3 Data Collection

Within this qualitative research, primary data in the form of interviews was essential to realize an in-depth understanding of how corporations proceed in developing and implementing ESG strategies (Collis & Hussey, 2014; Saunders et al., 2012). Interviews are commonly conducted within exploratory research as it allows a collection of comprehensive information regarding a topic (Adams, 2007; Saunders et al., 2012). Naturally, there are challenges with collecting primary data; it may be expensive, time-consuming, and difficult to collect (Adams, 2007). Thereby, certain practicalities and field site accessibility to collect primary data were considered before determining the research scope, which guided the selection and identification of attainable participants (Adams, 2007). Moreover, the authors of this study capitalized on the opportunity of conducting electronic interviews, which enabled a broadening of the geographical interviewee selection without excessive transportation. This also enabled the authors to stay within budget. Because of the software program Microsoft Teams, which was preferred by the participants, the authors were able to create high-quality recordings and were thereby able to transcribe the conversations effectively. Another challenge of conducting

interviews virtually was the difficulty of analyzing the respondent's body language (Collis & Hussey, 2014). To combat this challenge, the authors requested the participant to activate their video during the interview, which the respondents all agreed to.

### 3.3.1 Interview Guide

Although interviews are effective in terms of collecting insightful data, Collis and Hussey (2014) underline the importance of preparation before embarkment. Suggestively, researchers should aim at clarifying what information is needed and may be guided through a conceptual framework developed from the literature (Collis & Hussey, 2014). Subsequently, research suggests conducting pilot interviews in order to establish an understanding of what is desired to study (Adams, 2007; Collis & Hussey, 2014). To begin with, the authors of this research realized a lack of research on practical instruments for developing and implementing ESG strategies. Therefore, it was in the authors' highest interest to conduct a pilot interview as early as possible in order to gain familiarity with the topic and identify additional key areas to investigate on Volvo Cars and Scania. The authors of this research conducted a pilot interview with a Swedish publicly listed corporation; Axfood AB (Table 1). During this interview, certain themes were identified that gave the authors the opportunity to continue the search for literature accordingly as well as progressing with further interviews. The prepared set of questions is presented in Appendix 2, for readers to get a hint on what type of questions were asked. Although the pilot interview with Axfood gave guiding insights for the authors' upcoming interviews and was good preparation itself, its data was not included in the findings. The exclusion was motivated by the fact that Axfood operates in a completely different industry and would therefore not comprehensively contribute to the comparative case study.

### 3.3.2 Semi-Structured Interviews

Data collections undertaken within an interpretivist paradigm are collected through either unstructured or semi-structured interviews (Collis & Hussey, 2014; Saunders et al., 2012). To gain rich insights into Volvo Cars' and Scania's ESG strategies and how they are implemented, the interviews were semi-structured. Semi-constructed interviews are commonly used within exploratory research, such as this one, and were thus effective to collect important contextual information about this research's topic (Saunders et al., 2012). This decision furthermore led to the production of a certain set of open-ended questions, as well as preparation to ask follow-up questions, which were key in conducting semi-structured interviews (Adams, 2007; Collis & Hussey, 2014). While asking open-ended questions is time-consuming, and requires coding

with the risk of misinterpretation, open-ended questions also allow participants to express thoughts and beliefs, and enable in-depth understanding, and further clarification (Adams, 2007; Collis & Hussey, 2014). Closed-ended questions would not provide the information necessary to comprehensively answer this study's research question and was therefore excluded (Adams, 2007).

### 3.4 Data Analysis – Thematic Coding

Naturally, the methods of analyzing data depend on the choice of research paradigm and adopted data collection method (Adams, 2007; Collis & Hussey, 2014). Although there are plenty of methods of analyzing data, the authors chose thematic coding as the main method. Collis and Hussey (2014) present a general analytical procedure for analyzing qualitative data, which was followed by the authors. The first step taken was converting the content of the audio and video recording into a written record (Collis & Hussey, 2014). As modern features of Microsoft Teams offer automatic transcription during the interviews, it was adopted for higher efficiency. However, even though the accuracy of such automatic transcriptions is high, the authors reviewed and adjusted the provided content together with the video-recordings accordingly to ensure highest quality. Collecting large amounts of qualitative data requires researchers to adopt a systematic mind-set to manage analyzing the essential information to minimize the risk of becoming overwhelmed (Collis & Hussey, 2014; Adams, 2007).

Secondly, it was of critical importance to reduce the data and begin coding the data as soon as possible after each interview, as well as translating the key content from Swedish to English for language consistency (Collis & Hussey, 2014). As this undergraduate multiple-case study contained a relatively moderate number of interviews, the authors decided to rely on traditional manual techniques. Namely Excel Sheets. Thematic coding enabled the researchers to categorize and structure qualitative data into key themes, enhancing the process of analyzing the critical parts of the findings (Collis & Hussey, 2014). Appendix 1 illustrates an example of how the authors coded the qualitative data, to give readers transparent insights on their interpretations through a step-by-step process.

Thirdly, when the various phrases were categorized into key themes, the coded data were allocated to the themes of the researchers' theoretical framework (Figure 1) as seen in Appendix 1. This included: Strategic formulation, Strategic Implementation, Measurement & Reporting, Incentives, Accountability & Culture, and finally Adaption & learning. These themes and patterns thereafter enabled the researchers to conduct a coherent analysis of the

findings and enabled connection to existing theories as well as comparisons between the corporations. Because of the convenience of such theoretical framework, the authors were able to present its findings accordingly for explicit structure (Collis & Hussey, 2014).

### 3.5 Trustworthiness

#### 3.5.1 Credibility

Credibility refers to whether the research findings accurately capture participants' experiences and perspectives through the research scope of the investigation (Collis & Hussey, 2014). In order to increase credibility and therefore research trustworthiness, researchers should involve themselves in the research throughout the study by, for example, maintaining observance and obtaining an understanding of the research aim of the study. Another way of increasing credibility is to frequently debrief and consult with colleagues throughout the research, which the authors of this exploratory study were able to do (Collis & Hussey, 2014). This was accomplished through discussions and constructive feedback with fellow student colleagues and tutors at Jönköping University. Although there are many advantages of conducting research under interpretivist paradigm, such as collecting rich subjective data, Collis and Hussey (2014) states that interpretivist research has a tendency to produce findings with high credibility but with low dependability.

#### 3.5.2 Dependability

Research dependability refers to whether a repetition of one's study, following identical research procedures, would generate consistent findings even if conducted by other researchers (Collis & Hussey, 2014; Saunders et al., 2012). Dependability tends to have higher accuracy for positivist research, as the findings are objectively collected. Dependability under the interpretivist paradigm may be affected by the subjectivity of both researchers and participants involved (Collis & Hussey, 2014; Saunders et al., 2012). In order to reflect the high dependability of this conducted research, the authors dedicated a large proportion of their efforts to outlining their research procedures throughout the methodology section (Saunders et al., 2012). In order to reduce the impact of participant errors and bias, the authors gave the participants the authorization to choose date and time, anonymity, preferred language, as well as enough information to prepare for the interviews. To reduce researcher error and bias, the authors allowed the participants to fulfil their answers without interruptions and being sufficiently prepared (Saunders et al., 2012).

### 3.5.3 Transferability

Transferability concerns whether findings of the research may be applied on other similar cases and whether it allows generalization (Collis & Hussey, 2014). Generalization question whether a study's findings can be applicable to other relevant cases (Saunders et al., 2012). Adams (2007) states that generalization is critically important to push knowledge forward, which is a fundamental aspect of research. By comprehensively contextualizing and describing each step of this study, the authors of this study hoped to create opportunities for further research, where other researchers will be able to adopt certain parts if desired, such as the presented theoretical framework (Figure 1).

### 3.5.4 Confirmability

Furthermore, confirmability within research is the correlated strength between the pre-defined phenomena of investigation and what measures were taken to realize research accuracy as well as reach strong conclusions (Adams, 2007; Collis & Hussey, 2014; Saunders et al., 2012). For this study, the authors emphasized delicately displaying the interpretations of the empirics with citations to be easily understood by its readers, as well as presenting findings through the theoretical framework (Collis & Hussey, 2014). Keeping track of the logical steps of research reduced the risk of the authors drawing conclusions with false assumptions and misinterpretations and further enabled the authors to maintain focus on the scope of the study (Adams, 2007; Saunders et al., 2012).

## 3.6 Ethical Considerations

In research, there are standards of behavior that will guide researchers to assess an ethical study (Saunders et al., 2012). There were various research procedures in the study that required ethical considerations such as when interviewing key individuals, analyzing data, reporting the data, and managing the data (Saunders et al., 2012). Rhetorical assumptions of interpretivism were used as a guide in the process of empirical data collection as well as Bell and Bryman's (2007) 11 ethical guidelines. This included talking in a language in favor of the interviewee, excluding difficult words, phrases, and definitions, and with questions as clear and concise as possible, to minimize confusion (Collis & Hussey, 2014; Saunders et al., 2012). Prior to each interview, the authors ensured that each interviewee was well-informed about the topic, and what the research aimed to explore, offered complete anonymity, and provided each participant with a consent form (Collis & Hussey, 2014). The consent form given to the interviewees contained information about how the interviews would be conducted, how and for how long

the storage of respondent's answers as well as the interview recording would be stored. At the beginning of each interview, the authors once more requested permission to record the sessions, permission to use the interviewees' names, as well as their role in the corporation so that they would be comfortable answering questions.

After each interview's completion, a transcript was made as soon as possible which aligned with Bell and Bryman's (2007) 11 ethical guidelines and principles. Other guidelines include the fields of privacy, offered anonymity, confidentiality, and misrepresentation, which were considered and accounted for through consistent communication with respondents. The storage of the transcripts was put in separate Word documents, which were linked in the authors' shared Microsoft OneNote. When the interviews were conducted, transcribed, interpreted, and implemented in the study, each participant was provided with an example of the study for the participants to approve what has been written, and that nothing deviated from what was said during the interviews (Adams, 2007; Saunders et al., 2012).

## 4.0 Results/Empirical Findings

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*In this section, key findings from multiple in-depth interviews are presented to help answer the research question: How do corporations develop and implement ESG strategies? This section starts with key findings under each main category in the model from which the interview guide is drawn. The empirical findings are presented according to common themes and patterns that emerged after transcribed interviews. The section ends with a brief summary.*

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### 4.1. Company Background

#### 4.1.1 Volvo Cars AB

Volvo Cars AB is one of the world's most recognizable premium automotive brands, operational in over 100 countries. Volvo Cars was founded in 1927 in Gothenburg, Sweden, and has since then expanded production globally. Personal, Sustainable, and Safe are the three core pillars of Volvo Car's corporate strategy. In terms of sustainability, Volvo Cars is recognized as a global leader in climate action which is confirmed by top ESG rankings from multiple rating agencies. The empirical data from Volvo Cars are collected from various stages of departments of the corporation within Sweden. More specifically, the empirics are collected from key employees at Volvo Car's sites in Olofström, Gothenburg, and Stockholm.

#### 4.1.2 Scania AB

Scania AB is one of the world's leading providers of transport solutions with a focus on trucks and buses for heavy transport applications as well as power solutions for industrial and marine applications. In addition to this, Scania offers vehicle financing, insurance, and rental services as a complete package to customers. Scania's goal is to provide premium transport solutions that create lasting value for stakeholders throughout the product lifecycle. To collect the empirical data from Scania, key employees at the production plant in Södertälje, Sweden was interviewed.

### 4.2 Strategic Formulation

Throughout the empirical data collection of Volvo Cars and Scania, certain factors in the creation of strategic formulation and setting ESG visions and goals could be identified. One distinct assessment is that both Volvo Cars and Scania allocate plenty of time and resources for the creation and establishment of ESG goals, targets, and vision. A common denominator

between the two corporations is the usage of science-based targets as guiding frameworks in the establishment of goals and visions. Both corporations thus use a top-down approach to setting overall corporate goals. Working towards science-based targets is, according to the corporations, crucial to ensure that the corporation addresses and implements various aspects of sustainability when setting goals and strategies. For Volvo Cars, aiming high and striving for ambitious goals is important as such a mindset encourages the company to push its limits in pursuing sustainable practices.

*“With increasing sustainability pressure from investors, it is crucial for the company to deliver high sustainability performance to maintain an attractive investment option” - Linnea Peterson, Volvo Cars AB*

Volvo Cars consider where the corporation can make the most significant difference, focusing on identifying and addressing the largest environmental impacts, and has thus identified three focus areas for their ESG strategies: Climate action, Circular economy, and Ethical and Responsible business.

*"The main focus of Volvo Cars AB is divided into three pillars: Climate action, i.e., reducing our environmental footprint; Circular Economy, i.e., reducing waste; and Water Usage" - Linnea Petersson, Volvo Cars AB*

Another consideration of Volvo Cars is doing an analysis of the global environment and examining competitors' targets and goals.

*“This can help identify priority areas and create a comprehensive strategy” - Cecilia Våg, Volvo Cars AB*

Volvo Cars furthermore highlighted the importance of considering not only environmental aspects but also social and ethical sustainability.

*"We cannot have unethical production of sourcing and mining metals, not mainly for environmental reasons, but also for social reasons" - Cecilia Våg, Volvo Cars AB*

Similarly, at Scania, setting goals involves an analysis of each production unit to identify areas where they can reduce their carbon footprint and waste. During the interviews, Scania emphasized the fundamental aspect of sustainability, which is to reduce the usage of the planet's resources. Scania's production system is designed to eliminate unnecessary waste, and the company has already succeeded in removing the "low-hanging fruits". Scania has established

goals for each department, including production and logistics, which must align with the overarching goals of achieving carbon neutrality and improving circularity. Scania has a strategic formulation process that starts with identifying three main areas of focus at the central level. These focus areas are then communicated to each factory site within the organization. It is the responsibility of each individual factory site to set goals and strategies that align with Scania's overall objectives. However, decisions are taken at the executive management level.

*“Scania has decided to work on three main areas, which was decided by the executive management. Thereafter, the focus areas are communicated down to each major company area where the goals are adapted to fit that specific area and then communicated down to the different sites and departments. Finally, it is up to each site to set goals and strategies that align with their operations and the overall goals of Scania.” - Manuela Greif, Scania AB*

There are also focuses on streamlining the goals on a global level. For instance, Volvo Cars have a global focus on transitioning from petrol-driven cars to electric vehicles and hybrid cars soon, as well as promoting sustainability to its stakeholder throughout the whole supply chain. For example, Volvo Cars ensure that partners commit to supplying green electricity and heating, thereby promoting sustainability throughout the supply chain. As Scania and Volvo Cars incorporate ESG initiatives with the aim of reducing their environmental footprint in future production and operations, it is apparent that both corporations are taking a proactive approach. At Volvo Cars, this approach has evolved over the years, with sustainability goals and activities transitioning from being driven primarily by regulation and legislation to a more voluntary effort recognizing the importance of sustainability from multiple aspects.

*“A couple of years ago much of our sustainability work was driven by laws and regulations, however in recent years the focus has shifted towards a more proactive approach. Nowadays we strive to do more than is required by law to create value for all stakeholders.” - Annika Fredgren, Volvo Cars AB*

Volvo Cars furthermore understand the importance of global alignment with local adaptations in the process of formulating ESG-related strategies. To reach its ambitious sustainability targets, Volvo Cars find success in breaking down its long-term goals into shorter-term milestones, and making goals more concrete as well as tangible is essential for better pursuit and buy-in from top management. This process helps the company identify where it can make the best possible impact. While long-term goals can be set at the corporate level, Volvo believes that shorter-term subgoals are more efficient for manufacturing. This approach prevents

stressing the leadership with overly ambitious goals. The planning process and road mapping are the responsibility of each factory unit, which must align its ambitions and visions with overarching corporate goals.

*“When we set goals and visions at Volvo Cars, it is important to break down the goals and set sub-goals in order to succeed.” - Anne Lexe, Volvo Cars AB*

Although Volvo Cars are streamlining its overarching goals and visions on a global scale, they understand the need for regional adjustments, as local circumstances dictate the feasibility of certain sustainability measures. This flexible approach enables the company to progress toward its goals while remaining realistic about what can be achieved in different locations.

*“Volvo Cars Sweden can take advantage of hydroelectric plants, while Volvo Cars in China only have certain alternatives to choose from. With these considerations, the goals and visions must be adjusted to be reasonable for each country.” - Anne Lexe, Volvo Cars AB*

Scania has a similar approach where they analyze each department to identify processes with the most potential for reducing their carbon footprint and set targets and goals accordingly. While these goals are mostly for Scania's own knowledge, it is crucial for them to execute their visions and communicate their commitment to sustainability externally.

Volvo Cars indicated that although the balance between short-term profits and sustainability actions has been challenging, the perception of sustainability has shifted from being viewed as mere "goodwill" to an effort that can bring tangible economic benefits. This balance is an essential aspect of Volvo Cars' commitment to "walk the talk" and lead the industry to drive its engagement in this area.

*“It is now clear that actively working with these issues yields an economic benefit as well. There is a willingness to sacrifice short-term profits to increase sustainability performance. It is believed that the long-term benefits will outweigh what is sacrificed short-term.” - Annika Fredgren, Volvo Cars AB*

### 4.3 Strategy Implementation

When ESG goals and strategies have been determined and established, the next step for the corporations is to begin with its execution. Even though both corporations initiate their ESG strategies, goals, and visions through a top-down approach, both Volvo Cars and Scania have reservations about strictly using this approach for creating successful strategies. The

corporations indicated that, when it comes to execution, a more collaborative, bottom-up approach, which is more in line with Swedish business culture, is preferred.

*"Most times you talk about top-down or bottom-up when it comes to setting strategies. However, I have difficulties in believing that strictly using the top-down approach is the way of setting successful strategies" - Cecilia Våg, Volvo Cars AB*

This involves communicating the strategies to the factory sites and discussing the possibilities for implementation, ensuring a more inclusive and effective process. In the past decade, Scania has mostly employed a top-down approach to setting goals and visions. However, upon evaluating their success in achieving focus areas, they may recognize the need for a more collaborative process in the future. Involving each individual factory site in the decision-making process could be beneficial, as it could provide insight into what is realistically achievable. This shift in strategy could lead to better alignment between corporate objectives and factory-level capabilities, ultimately enhancing the effectiveness of Scania's strategy implementation.

*"It's not a one-man show. It is not the environmental departments that are executing the practices in the whole corporation. In order to create knowledge and execute sustainability strategies, leaders must communicate what it entails to their employees. Otherwise, the sustainability goals will not be accomplished." - Cecilia Våg, Volvo Cars AB*

To facilitate this at both Scania and Volvo Cars, each individual factory site has a designated "Environmental Coordinator", who ensures that the strategies, goals, and visions are effectively communicated within their specific site. Thereafter, an execution plan is requested from each individual factory site, outlining how they will achieve the requirements. However, if a factory site finds it impossible to execute the requirements, a dialogue is initiated to explore alternative solutions or additional investments.

*"Nevertheless, it may also be impossible for a factory site to execute what is being asked and thereby start a dialogue on how it can be best accomplished, or whether further investments are required." - Anne Lexe, Volvo Cars AB*

While the environmental coordinators are responsible for executing the strategy or plan, the factory site's leadership team, including representatives from production, logistics, sustainability, operations, and quality, must be involved in the process and take responsibility for its execution. Each manufacturing facility's environmental coordinator is working

alongside a global environmental team to coordinate practical goals, activities, and KPIs. They collaborate on various processes and share a collective responsibility for achieving sustainability goals. This is evidential for both corporations.

*"It is the Environmental Coordinator that is responsible for developing the strategy. However, it is the entire management team for each site that must be involved in the process and take responsibility for the execution"* - Anne Lexe, Volvo Cars AB

*"These operations should work in a step-by-step process from the executive leadership to the closest managers and then continue on that path until each production manager is aware of its implications. It is then the production managers that are responsible for executing and accomplishing these goals and are held accountable if it is not managed correctly."* - Manuela Greif, Scania AB

Volvo Cars and Scania AB believe that leadership plays a crucial role in the successful implementation of ESG strategies. Both corporations have leadership teams at each operating area, including both at regional and individual factory site levels. This structure facilitates the dissemination of essential information throughout the organization. By focusing on attainable goals and fostering a culture of competence and leadership, Volvo Cars aim to make progress in its ESG areas. Having executive leadership committed to these strategies, goals, and visions ensures that sustainable transitioning is prioritized, and investments are made when required.

*"Having a strong leadership team is critically important for sustainability implementations. Without the leadership's engagement and support, Scania would not achieve strong results."* - Maria Bodingh Johansson, Scania AB

Volvo Cars emphasized that it's not just the environmental department's responsibility to execute practices across the entire corporation. Instead, leaders must effectively communicate the strategy and its implications to their respective departments. This approach ensures that sustainability goals are integrated into the core business and not treated as a separate endeavor.

*"Without anyone asking for results within these areas, probably only few things will be accomplished"* - Maria Bodingh Johansson, Scania AB

The implementation of Volvo Cars' ESG strategy involves a multi-tiered leadership structure, a strong focus on communication, and the involvement of all employees. Every employee of Volvo Cars should be aware of the company's sustainability visions and goals, regardless of their position. The intranet is one channel used to communicate this information, highlighting

specific operations and important sustainability aspects. Scania pointed out that focused transformation projects with specific goals and deliverables are easier to manage than general information distributed across the entire organization, especially in a large manufacturing business. To ensure that information reaches everyone, meetings, and communications must be asserted through team leaders and other channels to reach all employees.

Both corporations were aware of the importance of beginning with removing the “low-hanging fruit” close to the employees, as both corporations had realized that it makes the implementation of ESG practices easier. However, both Volvo Cars and Scania emphasized identifying new techniques and processes to increase efficiency, minimize waste, and thereby increase sustainability. However, these solutions come with a cost, and corporations must carefully consider the financial implications of adopting sustainable technological innovation.

*“The easiest way is to start with the so-called low-hanging fruit. But after that, it is mainly about finding new technologies that ease the process and increase efficiency.” - Annika Fredgren, Volvo Cars AB*

*“We must adopt sustainable technological innovation, but these innovations come with a cost.” - Maria Bodingh Johansson, Scania AB*

Certain strategic approaches are taken by both corporations when it comes to general project implementation that was presented during the interviews. Volvo Cars use a management system that covers all aspects of their work, including ESG and holds certifications in quality and environment. This structured approach ensures that knowledge and insights are shared between divisions, promoting collaboration, and avoiding duplication of efforts. Scania AB uses PDCA (Plan, Do, Check, Act), which is a planning tool for strategy implementations. As new goals, strategies, and processes are introduced, the PDCA continues in an iterative cycle.

When it comes to streamlining ESG practices, Volvo Cars uses a sharing structure. Because, when an individual factory site discovers new successful ESG practices, they can be communicated and streamlined to all of Volvo Cars’ factory sites to be embraced globally. Implementing sustainability activities across the organization requires a holistic effort. When improvements are identified, whether in efficiency or sustainability, Volvo Cars emphasized the importance of having the entire corporation adopt these improvements across all factory sites. Achieving this requires good competence, leadership, and strong communication.

*“All factory sites of Volvo Cars must work aligned and have the same sustainable ways of working, regardless of country or location.” - Anne Lexé, Volvo Cars AB*

One of the strongest success factors in implementing ESG strategies and practices is the early adoption of sustainability aspects in all projects, big or small. By including the environmental coordinators' expertise at the early stage of a project, the project's deliverables will be better aligned with the corporation's ESG strategies and goals. Although Volvo Cars underlined the importance of early adoption and have a process called “early phases”, Scania AB did not directly mention its greatness.

*“Incorporating sustainability from the beginning of projects, such as the construction of new factory sites, is essential for achieving lower environmental impacts.” - Cecilia Våg, Volvo Cars AB*

*“Most often, we make adjustments to upcoming car models. Now that SBAB's fossil free steel will be available 2026, we identify what models will launch in that timeframe and analyze which models will be receptive to changing to SBAB's new product.” - Linnea Petersson, Volvo Cars AB*

#### 4.4 Measurement & Reporting

In the evaluation of ESG strategies, activities, and goals, Scania AB and Volvo Cars emphasize establishing measurement points that will be assessed and tracked. The strategy is reviewed and approved by the leadership team at each site and followed up monthly or quarterly to track progress and identify areas for improvement. Including measurement points, also known as Key Performance Indicators (KPIs), is beneficial for the corporation from various perspectives.

For production and manufacturing, Volvo Cars stated that including key performance indicators is a good practice to maintain employee motivation. Measuring sustainable KPIs and evaluating data in relation to each project is essential. For instance, Volvo Cars have broken down its goals into measurable targets, such as reducing energy usage per car by a certain percentage annually and reducing waste per produced car. For Scania AB, each production site establishes its own sustainability roadmap, listing each activity involved in the process step-by-step, which is then measured and evaluated frequently with KPI's to determine whether the site's activities are enough to reach the goals. This enables the corporations to connect relevant KPIs to each subgoal and gives the employees day-to-day goals and indications of their

performance. Regular evaluation can provide valuable insights and help maintain employee motivation by adjusting overly ambitious goals or reinforcing the impact of their work.

*“We must include KPIs for frequent evaluation of current projects and realize what works and what doesn't work. Seeing a red-marked KPI each month will indicate that maybe we have set too ambitious goals and that they must be adjusted. Otherwise, the employees will work towards something that may be physically impossible to accomplish and may instead lose their motivation. Contrarily, seeing aligned KPIs may motivate the employees that they are making a difference” - Manuela Greif, Scania AB*

These KPIs provide tangible evidence of the impact of their sustainability efforts and help employees recognize the value of their contributions. For example, Volvo Cars have an extensive list of energy efficiency projects and break down its long-term goals into yearly targets. At Volvo Cars, there are dedicated employees working on energy optimization, but as they are not directly involved in the production, it is crucial to involve other employees as well. Having visual KPIs of what is expected from each shift allows for incremental achievements and a clear path toward long-term objectives. This is critical for Scania's success as well, as it helps the company to identify areas where additional activities are needed to accomplish specific goals. Without this mechanism in place, it would be difficult for Scania to identify areas for improvement and make the necessary changes to achieve their sustainability goals.

*“It is important to include Key Performance Indicators and evaluate them monthly to see whether we are on track and aligned with our goals. For example, we used an external party to evaluate us, and were able to identify and acknowledge some parts of the corporation that needed adjustment and focus” - Manuela Greif, Scania AB*

*“It is of critical importance that we measure ESG KPIs as well as evaluate the data points in relation to each project” - Anne Lexe, Volvo Cars AB*

Another benefit of including and reviewing KPIs connected to processes and procedures is the possibility to measure the performance of new machinery or equipment. For instance, when purchasing new machinery, it's crucial to conduct a life-cycle assessment to determine if the implementation will truly make a difference in terms of ESG. Volvo Cars made a decision to set their own price on carbon emissions, which helps departments financially calculate sustainability projects and determine their feasibility. This approach fosters a close relationship between the finance and sustainability teams, leading to a more accurate planning process. By

working closely together, these teams can ensure that project evaluations consider all relevant factors, ultimately leading to more informed and responsible decision-making.

*“For example, you must consider everything and conduct a life-cycle assessment when buying a new piece of machinery, to evaluate whether the implementation will make an actual difference within the context of sustainability. Maybe, it is key for the finance and sustainability team to work closely to evaluate projects both financially and sustainably.” - Cecilia Våg, Volvo Cars AB*

At Volvo Cars as well as Scania, the ESG KPIs will be reviewed frequently by the environmental coordinators and give indications on how teams are performing and whether additional assistance is needed for accomplishment. The company tracks progress through reporting each month, compiling reports for evaluation by corporate management. However, despite the importance of monitoring progress, much of the reporting and measuring is still manual at Volvo Cars, and there is a need for automated solutions to collect and categorize data.

The annual report, which is third-party verified for both corporations, serves as the most comprehensive and critical measurement activity. Scania's adherence to the ISO 14001 certification requires them to maintain a certain standard for their environmental management system. The report includes information on carbon emissions, waste management, and social responsibility initiatives, among other things. This report is made available to the public and is an important tool for stakeholders who are interested in Scania's sustainability efforts.

*"Scania holds an ISO 14001 standard certificate which is proof that shows that we work with an environmental management system according to this standard" - Manuela Greif, Volvo Cars AB*

With the rise of reporting directives such as CSRD and the EU taxonomy, Volvo Cars understand the need to pay close attention to these requirements in future business endeavors. To achieve accurate external reporting, Volvo Cars relies on robust internal reporting, with various departments contributing data. For example, the manufacturing division must provide data to the environmental department, allowing them to create a comprehensive sustainability report that reflects the company's progress and efforts.

*“Due to the increase of reporting directives such as CSRD or the EU taxonomy, we must give it a lot of attention in future businesses. In order to accomplish the external reporting, a lot of*

*internal reporting is needed at Volvo Cars. For instance, the manufacturing department must deliver their data to the sustainability department for the making of a sustainability report.” - Linnea Petersson, Volvo Cars AB*

This approach to measurement and reporting furthermore helps the corporations ensure that it is making steady progress toward its sustainability goals and that employees across the organization are actively engaged in these efforts.

#### 4.5 Incentives, Accountability & Culture

Throughout all interviews, it was evident that sustainability focus is a must when it comes to maintaining a positive reputation and attracting new talent. For instance, when Scania AB have been interviewing for new engineering positions, it has been common for them to receive questions regarding Scania’s ESG strategies and how they are looking to improve. Scania and Volvo Cars pushed for the need for improved knowledge and expertise to understand the consequences of each decision made across the corporations, such as the impact on biodiversity.

*"Sustainability is a parameter with great importance, and to be an attractive employer, it must be incorporated into the corporation and be taken seriously. Nowadays, most business schools are discussing sustainability, which was not the case during my time studying at the university"*  
- Cecilia Våg, Volvo Cars AB

While everyone at the corporation plays a role in sustainability efforts, Volvo Cars acknowledged the challenge of getting everyone informed and engaged about the initiatives being undertaken. As mentioned, the corporations have high beliefs in the younger generation when it comes to sustainability and discussed the critical aspect of attracting new talent. However, they also insisted on increasing the current workforce’s engagement in sustainability and handled this process in different ways. Volvo Cars have, for example, launched sustainability smartphone games in China to increase engagement and knowledge about the topic, which has shown positive results. Volvo Cars furthermore communicated their best practices across the corporation through a meeting structure with environmental coordinators from each factory site. This approach allows for the adoption of successful strategies and procedures throughout the organization, ultimately reducing the corporation's environmental footprint.

*"We have a meeting structure with all the environmental coordinators on each factory site. In this way, we are able to work similarly globally, and is called 'best practice'." - Cecilia Våg, Volvo Cars AB*

Overall, Volvo Cars and Scania AB have seen a major shift in culture, both internally and externally, regarding the interest in sustainability. The corporations are positive regarding the development of sustainability awareness, as it simplifies the acceptance of implementing additional ESG strategies and setting ambitious ESG goals. At Volvo Cars, they experienced a massive shift in focus when their former CEO, Håkan Samuelsson coined the phrase *"sustainability must be as important as safety at Volvo Cars"* during an annual general meeting. This shows the need for strong and competent leadership with high sustainability interest, which the corporations highlighted as a key factor in their sustainability endeavors. In addition to competent leadership, Volvo Cars have identified the significance of attitude and behavior as essential qualities for a strong leader. At Scania, they find that the success of sustainability initiatives often depends on individual managers' interest and commitment to these goals. As a result, a production manager with a strong interest in sustainability will ensure that it is followed and prioritized.

*"I think sustainability starts with interests and engagement from managers as they are the leaders of our corporation. Furthermore, I believe that the information flow regarding the success of sustainability activities will boost the engagement across the employees of the corporation." - Manuela Greif, Scania AB*

*"Of course, competent leadership is a big part, but foremost, attitude and behavior are important pillars for a strong leader as you are this role model for the employees that is being managed." Cecilia Våg, Volvo Cars AB*

Following Håkan Samuelsson's declaration, funding sustainable projects and investing in less environmentally damaging machinery became easier, but still challenging.

*"Thereafter, funding sustainable projects and investing in less damaging machinery has become easier than before. Not easy, but easier." - Anne Lexé, Volvo Cars AB*

Scania's executive leadership team is aware that sustainability requires attention and investment from the company. They report an increase in sustainability engagement within the leadership team, management, and production, providing suggestions for improving sustainability processes. While Scania has, according to themselves, the best production system

in-house and an excellent management system to steer it, they still have a long way to go. Scania believes that they have the right qualifications to succeed, but they require internal investments to achieve their sustainability goals.

*"We have the best production system in-house and an excellent management system to steer it." - Maria Bodingh Johansson, Scania AB*

Currently, there are no bonuses tied to sustainability performance at any of the corporations, but the topic is being discussed. During interviews with Volvo Cars, it was revealed that the company had been criticized for the lack of incentives connected to sustainability. However, even though Volvo Cars believes in their workforce succeeding with ESG activities, they admitted during the interviews that bonuses tied to ESG targets could potentially be advantageous in some departments.

*"No, the lack of incentives connected to sustainability is one of the things we have been criticized on when getting externally evaluated and rated" - Linnea Petersson, Volvo Cars AB*

*"Bonus-based sustainability targets may be critical for some parts of the organization" - Linnea Petersson, Volvo Cars AB*

This commitment to sustainability initiatives and the Triple Bottom Line approach demonstrates how incentives, accountability, and corporate culture contribute to advancing ESG goals within Volvo Cars. When it came to the internal consequences of not reaching ESG goals and targets, Scania AB and Volvo Cars believed that they may not be severe enough to ensure top priority. Although, the corporations seemed confident enough to say that they already hold the desire and commitment internally by leadership and management to achieve their ESG goals. Accountability is maintained through quarterly evaluations and an expectation for factory managers to present plans for improvement if the established goals are not met, creating a culture of commitment to the ESG strategies.

*"Most often, the consequences of not accomplishing the sustainability goals may not be tough enough to receive the highest priority. It mostly depends on the managers' willingness to achieve the sustainability goals. If a production unit manager or someone higher up in the hierarchy has a lot of interests in sustainability, that person will ensure that it is being followed and worked with." - Manuela Greif, Scania AB*

Externally speaking, the corporations are aware of the importance of working towards their goals and as they are both publicly traded corporations, there is a pressure to show continuous improvement in the field of sustainability, as investors expect progress.

#### 4.6 Adaptation & Learning

During the interviews, there was a common emphasis on staying updated with upcoming trends in both finances as well as sustainability practices. To proactively improve to meet the demands, it is important to have knowledgeable team members that are adaptable to changes and can take rational decisions.

In some of the global operating regions, Volvo Cars' environmental competence is largely driven by local legislation with a focus on compliance rather than excessively working towards increasing ESG initiatives. However, there exists an eagerness and commitment to learning more about sustainability and Volvo Cars' ESG initiatives, even if their current expertise is relatively low.

Although, Volvo Cars and Scania AB have identified the need for educating and increasing knowledge about the topic. When onboarding new employees, the corporations both have initiated basic sustainability education where the new employee is informed of ESG strategies, goals, and procedures. Volvo Cars also offer environmental courses to those employees who would like to increase their knowledge.

*“Within Volvo Cars, we offer a wide range of courses to educate employees for those who desire to learn more about our ESG practices and initiatives” - Linnea Petersson, Volvo Cars AB*

In terms of sharing information and facilitating the learning of each employee, Volvo Cars suggested that digital tools can play a significant role. The introduction of the game to Volvo Cars' factory sites in China enabled a greater spread of awareness through an innovative and playful tool. Although it is critical to raise awareness, more comprehensive education is needed. Another suggestion at Volvo Cars was to expand the use of screens in factories to display general information as well as specific performance metrics for individual production lines. This approach could make it easier to disseminate information and encourage learning throughout the organization, even though implementing such a system could be challenging.

One part of reaching Volvo Cars ESG goals, they have initiated processes to apply education across their supply chain. Before the pandemic emerged, Volvo Cars invited approximately

1,000 suppliers for a week-long series of dialogues, aimed at fostering collaboration and enhancing sustainability across the supply chain. This illustrates the company's commitment to improving its sustainability practices and culture. Not only internally, but also externally.

When Volvo Cars have been introduced to a new directive or procedure, such as the CSRD, EU taxonomy, or any new regulation that may affect the corporation's business, they hire external expertise in the form of consultants to educate the environmental department as well as other key individuals. Before doing so, they made a gap analysis to identify the current state of internal expertise, and what information they desire from the external party.

*“When we are to learn more about certain sustainability procedures, we hire consultants to help us improve. Before doing so, we identify knowledge gaps within the corporation and thereafter search for external expertise with knowledge about what we are looking for” - Linnea Petersson, Volvo Cars AB*

Scania AB aims to share their internal expertise with others in the company to increase overall engagement and interest in sustainability. In order to do so, Scania AB hosts an internal event called "climate day," which focuses on sustainability activities and knowledge exchange. During this day, managers gather their teams to discuss sustainability goals and their progress in implementing them. The insights and ideas generated during these discussions are then shared across Scania to facilitate learning from other factory sites. This event also provides an opportunity to discuss potential improvements within the context of sustainability, fostering an environment of continuous growth and adaptation.

*“This day is formed that managers should gather their team and discuss the sustainability goals and how they work with them, which should then be communicated across Scania to learn from other factory sites. It also has room for discussing further improvements within the context of sustainability.” - Manuela Greif, Scania AB*

*"Our ambition is that our internal expertise can help influence others at Scania in their sustainability interest, so we can increase the overall engagement within these fields." - Maria Bodingh Johansson, Scania AB*

## 4.7 Empirical Findings Summary

Volvo Cars and Scania emphasized the importance of clear sustainability vision and strategy, underlining the need for strong commitment and collaboration between various stakeholders such as employees, management, and external parties. When establishing ESG strategies, visions and goals, it was understood that Volvo Cars and Scania both operated through a top-down approach with aims to streamline the objectives across the corporations. In the process of developing the goals and visions, Volvo Cars and Scania have considered science-based targets, with Scania standing as the first mover in the industry. For successful streamlining, the dedicated environmental coordinators work as communicators from the headquarters to each individual factory site, which both corporations had in place.

While the top-down approach was used in establishing ESG vision and goals, Volvo Cars and Scania emphasized the usage of a collaborative, bottom-up approach in the execution process of ESG strategies. Furthermore, the corporations prioritized effective communication, involvement of factory sites, as well as leadership engagement. Volvo Cars and Scania both desired to integrate sustainability into the core of their corporations, and a key factor in the accomplishment of ESG strategies is the early adoption of sustainability aspects in each project.

Scania AB and Volvo Cars highlighted the importance of implementing Key Performance Indicators (KPIs) to evaluate the progress of their ESG strategies and procedures. These indicators were frequently reviewed and considered by environmental coordinators as well as leadership at both corporations. To Volvo Cars and Scania, the KPIs help the corporations monitor the progress of ESG strategies, identify areas for improvement, and increase employee motivation. Another benefit of the corporations' decision to break down their target and goals is that the KPIs may be connected to subgoals and adjusted if needed. The KPIs provide tangible evidence of sustainability efforts, facilitate machinery performance assessment, and foster collaboration between finance and sustainability teams. According to Volvo Cars and Scania, monthly reporting, automated solutions for data management, and comprehensive annual reports are essential for the success of tracking, monitoring, and improving ESG activities.

To maintain being attractive employers, the corporations emphasized the importance of taking ESG practices seriously and integrating ESG objectives in the corporations' businesses. Although there were high beliefs in the younger generation in terms of sustainability interest and engagement, a desire existed to engage all employees across the corporation as it is a

critical aspect of successfully achieving ESG goals. Efforts in increasing engagement across the corporations, such as having a dedicated day to discuss ESG procedures or launching a sustainability-related game to its employees could help the process. Tying the achievement of ESG goals to the corporations' bonus systems was an interesting topic and was mentioned to be discussed internally, but such incentives did not exist in either Volvo Cars or Scania. For now, the corporations believed that the consequences of not accomplishing ESG goals may be too low to be prioritized correctly, but also believed that they had the right tools and resources to successfully reach their goals.

## 5.0 Discussion & Conclusion

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*This chapter aims to answer the research question by processing and analyzing the collected data presented in the previous chapter in comparison to the frame of reference and existing literature. In this chapter, the authors discuss how corporations develop and implement ESG strategies, as well as identify factors of influence and gaps in this process.*

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### 5.1 Setting Goals

Both Volvo Cars AB and Scania AB's ESG strategies appear to be driven by a combination of regulatory requirements, societal expectations, industry norms as well as voluntary operations. However, in terms of identifying and ultimately deciding on ESG-related goals, it is evident that both corporations use a top-down approach and rely heavily on science-based targets such as the UN SDGs for their overall long-term corporate objectives. These international frameworks represent institutional pressures that shape the strategic direction of ESG strategies. The increasing sustainability pressure from investors highlights the importance of conforming to institutional norms to remain an attractive investment option (DiMaggio & Powell, 200; Meyer & Rowan, 1977). According to Scott (2014) corporations operate within an institutional environment that influences their behavior and decisions. However, it is important to question the extent to which these frameworks truly drive meaningful change. For instance, the reliance on international frameworks could be criticized as a form of "window-dressing" where corporations may be more focused on projecting a positive image rather than implementing substantial changes in their operations (Meyer & Rowan, 1977). As such, ESG strategies may be seen as a response to external pressures for corporations to address environmental and social issues. An indication of such is the fact that both companies highlight the importance of incorporating these factors to remain an attractive investment as well as the tension between short-term profits and ESG activities. Despite this, both Volvo Cars AB and Scania AB have sustainability factors deeply integrated into the core of their business and extensive sustainability programs in place based on scientifically accepted targets that build a solid foundation for sustainable development.

As argued by Storero & Barychev (2022), corporations should integrate and align ESG procedures in their long-term strategic plan, risk management process, and culture. In the case of Volvo Cars and Scania, it is evident that sustainability aspects are incorporated into their

core model. However, as previously mentioned, there still exists a tension between short-term financial performance and long-term sustainability objectives. While both corporations stated that it has gotten easier to incorporate ESG factors into business decisions, they also said that these plans must be financially viable both short-term and long-term to be approved. The argument that ESG performance can enhance the economic performance of a corporation (Agarwal et al., 2022; Li et al., 2022) may thus be questioned because of the obvious fact that no projects are implemented if they are not economically viable. To cherry-pick only the projects that are economically feasible, meaning that there must be some economic benefit to it, somewhat undermines the purpose of corporate sustainability and the incorporation of ESG factors, or at least proves that sustainability is still thought of as secondary to economic aspects. Similar arguments have been made by (Andersson & Dumay, 2021; Abbayawansa et al., 2019; Arvidsson, 2014; Cho et al., 2015), that ESG disclosure is not likely to result in any significant changes to corporate behavior.

Furthermore, both corporations recognize the need for global alignment with local adaptations, as well as breaking down long-term goals into shorter-term milestones to make them more concrete and tangible. This approach allows corporations to progress toward their overarching goals while remaining realistic about what can be achieved in different locations which are in alignment with (Epstein & Buhovac, 2010; Beush et al., 2022) emphasis on clear, measurable, and time-bound sustainability goals that are in alignment with overall corporate objectives. Without alignment with the corporation's overall objective, the likeliness of implementing new ESG practices would be minimal. Findings also suggest that corporations can benefit from adopting a flexible approach such as a combination of top-down (Windolph et al. 2014) and bottom-up, to pursue ESG goals and targets. As argued by Engert & Baumgartner, 2016), a flexible approach to decision-making, involving employees on multiple levels is crucial in implementing sustainability aspects. Both Volvo Cars and Scania demonstrate a high level of flexibility and dynamic as they have adopted a collaborative approach that aligns with Swedish business culture, involving employees, factory sites, and management teams in the decision-making process. Involving employees, different factories, and management teams in the decision-making process is likely to have positive effects on the business culture, which is essential in sustainability projects (Nathan, 2010; Li et al., 2008). In addition to this, including a variety of perspectives in business decisions can lead to more creative and innovative solutions, something that is often positively related to sustainable development. The involvement of various leadership teams, environmental coordinators, and employees

throughout the implementation process helps ensure that ESG strategies are effectively communicated and integrated into the core business.

## 5.2 Stakeholder dilemma

Both Volvo Cars AB and Scania AB highlight the need to perform an analysis of external factors and to identify key stakeholders and their needs when determining the strategic direction of the company. This is in alignment with OECDs (2015) guiding principles on corporate governance; “The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises”. As well as the overall emphasis on stakeholder inclusion in integrating sustainability into corporate strategies (Freeman et al., 2004; Joyce & Paquin, 2016; Porter & Kramer, 2011; Linnenluecke & Griffiths, 2010; Grunwald & Fischer, 2022; Freudenreich et al., 2020; Engert et al., 2016). However, whilst both companies incorporate stakeholders and their needs in the process of setting goals and visions, they also emphasize the need to prioritize and ultimately decide on which stakeholders to include which is somewhat contradictory to what the theory calls for.

Stakeholder theory emphasizes the importance of considering the interests and expectations of all stakeholder groups in the decision-making process (Freeman et al., 2004). In relation to sustainability, this is often realized in the triple bottom line by Elkington (1997) which emphasize the importance of people and the planet in addition to traditional business models that focus solely on profits. While Volvo Cars AB focus on identifying and addressing the largest environmental impacts and has identified three focus areas for their ESG strategies, climate action, circular economy, and ethical and responsible business. Scania has established goals for each department, ensuring that its objectives align with the overarching goals of achieving carbon neutrality and improving circularity. Although both corporations highlight the importance of including stakeholders, the extent to which their input is genuinely incorporated into the decision-making process may be questioned. For instance, it is unclear how much weight is given to the concern of external stakeholders such as local communities, biodiversity, and environmental groups, and how they are prioritized compared to internal stakeholders such as investors and employees. This could lead to an imbalance in the representation of stakeholder interests and potentially result in ESG strategies that favor certain groups over others.

### 5.3 Rewards & Accountability

Agency theory suggests that conflicts of interest between agents (management) and principals (owners) in a corporation can lead to inefficiencies and sub-optimal decision-making (Jensen & Meckling, 1976). Within the context of ESG strategies, this conflict can emerge as a struggle between short-term profits and long-term sustainability efforts. However, the findings reveal that the perception of sustainability has evolved from being seen as just "goodwill" to an effort capable of generating real economic benefits. This implies that the alignment of interest between agents and principals can be achieved through the recognition of the long-term value of ESG initiatives. Despite the increasing focus on sustainability, however, neither Volvo Cars AB nor Scania AB has bonuses tied to sustainability performance. The absence of incentives and motivators to pursue ESG targets, coupled with minimal accountability if these targets are missed, raises the question of how prioritized these aspects are. Accountability is maintained through regular evaluations and an expectation for managers to present plans for improvement if established goals are not met (Agarwal et al., 2022). This approach to accountability is important, but it could be further strengthened by incorporating financial incentives for achieving ESG targets. Especially if bonuses tied to financial or operational indicators exist, as that directly enables a conflict of interest. In line with agency theory, tying executive compensation to ESG performance can further help align the interests of managers and investors, thus reducing conflicts and encouraging long-term sustainable decision-making (Bebchuk & Fried, 2003). Therefore, implementing rewards and incentives tied to ESG performance can not only minimize agency conflicts but also improve overall sustainability (Ioannou & Serafeim, 2015).

Furthermore, both Volvo Cars AB and Scania AB emphasize the use of Key Performance Indicators (KPIs) and frequent evaluations to track progress and maintain employee motivation, which is crucial for pursuing sustainability (Eccles et al., 2014). This approach enables companies to set realistic goals and make necessary adjustments when needed as well as allows timely and tangible measurements for evaluation that could potentially minimize any conflicts of interest as it gets harder to overlook these aspects. Externally, both corporations face pressure to demonstrate continuous improvement in sustainability as publicly traded companies, as investors expect progress in this area (Li et al., 2017). As a result, the incorporation of ESG metrics into KPIs and executive compensation packages could encourage a greater commitment to sustainability and foster a culture of continuous improvement. However, the pursuit of aggressive growth strategies or financial targets might lead to the

prioritization of short-term gains over long-term sustainability objectives. Furthermore, the extent to which agents are held accountable for the achievement of ESG goals is unclear, potentially weakening the link between ESG strategy and implementation.

Moreover, both companies highlight the importance of staying informed and adaptable to emerging trends in finance and sustainability practices. Digital tools, such as games and the use of screens in factories to display information, have been suggested to raise awareness and encourage learning throughout the corporation. Which could significantly increase the corporation's sustainability efforts (Arjaliés & Mundy, 2013; Beusch et al., 2022; Li et al., 2008). Furthermore, it is crucial to ensure that employee engagement in sustainability initiatives goes beyond mere awareness and translates into tangible actions and commitment. A more comprehensive approach that includes training, incentives, and ongoing support might be necessary to fully engage employees in sustainability initiatives (Beusch et al., 2022; Epstein & Buhovac, 2010). This can help in bridging the gap between strategy and implementation, leading to better outcomes.

## 6.0 Conclusion

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*This final section discusses conclusions along with contributions, implications, and limitations as well as provides suggestions for future research.*

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### 6.1 Summary

The aim of this thesis was to contribute to the increased knowledge of corporate sustainability, more specifically how corporations identify, determine, and implement Environmental, Social, and Governance aspects. A qualitative study was conducted to best answer the research question: How do corporations develop and implement ESG strategies? Additionally, the authors reviewed existing literature in related areas to construct a theoretical background and identify gaps in existing research. Primary data was collected from in-depth interviews with six representatives from two Swedish automotive corporations. Findings from this study both validate the existing literature in the area but also revealed new insights not previously mentioned.

The development and implementation of ESG strategies within corporations like Volvo Cars and Scania are influenced by various factors, including institutional pressures, alignment of interest between agents and principals, and stakeholder expectations. In terms of identifying ESG goals, both corporations adopt a long-term perspective and rely on science-based targets such as the UN SDGs to set the strategic direction of the company. This validates the argument that there is a need for long-term orientation in strategic planning and risk management of sustainability practices (Storero & Barychev, 2022). Furthermore, findings also validate the argument that institutional pressures, such as the demand from investors, heavily influence the direction of corporate strategies (Meyer & Rowan, 1977; Scott, 2014). In addition to this, both corporations highlight the need for stakeholder inclusion to increase ESG performance. However, in contrast to what the theory calls for, the inclusion of all stakeholders (Freeman et al., 2004), they also emphasize the need to prioritize and ultimately decide on which stakeholders are most important to their operations as it is not possible to please everyone. Although both corporations have extensive sustainability programs and processes in place, the increased pressure from investors to adopt more sustainable practices in combination with internal tension between short-term profits and long-term ESG goals indicates that ESG activities may be secondary to financial performance. This thesis also shows that the adoption

of a flexible approach, incorporating global alignment with local adaptations and breaking down long-term goals into shorter-term milestones, can help corporations successfully navigate the challenges associated with developing and implementing ESG initiatives.

Furthermore, findings also indicate that potential conflicts in management and owner interests which can result in less-than-ideal decisions being made (Jensen & Meckling, 1976), could be aligned with the long-term value of ESG activities. However, the lack of incentives and motivators to pursue ESG targets in combination with virtually no accountability if these targets are missed again indicates that financial performance has a top priority. In the absence of incentives, the need for other methods to ensure internal alignment and compliance regarding ESG activities increases. This thesis shows that including ESG factors in KPIs could promote a stronger commitment to sustainability. In addition to this, training, rewards, and continuing assistance, as well as the use of digital tools to engage employees in sustainability projects could lead to better internal alignment and thus increased ESG performance.

## 6.2 Theoretical Contribution

Findings from this thesis offer several theoretical contributions to corporate sustainability and environmental, social, and governance (ESG) strategies. The study validates the long-established theoretical standpoint that institutional pressures and the alignment of interests between agents and principals influence the direction of corporate strategies. This thesis also underscores the importance of long-term orientation in strategic planning and risk management of sustainability practices, supporting existing theories in this area. In addition to this, while the current theory calls for the inclusion of all stakeholders, findings show that corporations have a need to prioritize certain stakeholders. In addition to this, the thesis highlights the internal tension between short-term profits and long-term ESG goals. This aspect provides an interesting perspective on the dynamics of ESG implementation and its potential secondary status to financial performance. Lastly, this thesis extends the agency theory by presenting the possibility of aligning management and owner interests with the long-term value of ESG activities as they are becoming more recognized as generating real economic value.

## 6.3 Practical Implications

Insight from this study has several implications for corporate practice. Firstly, the study emphasizes the importance of aligning ESG goals with science-based targets to ensure that the strategic direction is grounded in global standards. Additionally, findings indicate that the alignment of management and owner interests with long-term ESG goals can be beneficial in

the pursuit of sustainability. Therefore, corporations should explore methods to align these interests, such as integrating ESG factors into executive bonus programs or KPIs, to incentivize sustainable decision-making. Lastly, the research shows that there is a need for internal alignment and compliance regarding ESG activities. To promote commitment to sustainability, corporations could incorporate ESG-related performance measures into employee KPIs, offer training and rewards for sustainable practices, provide ongoing assistance for sustainability projects, and employ digital tools to engage employees in these initiatives.

#### 6.4 Methodological reflection

Initially and throughout, the authors were confident with the choice to undertake research through the interpretivist paradigm and more precisely, through collecting empirical data in the form of interviews. It was the authors' highest belief that an exploratory case study would enable rich insights into the key elements of this research and enhance their knowledge regarding ESG strategies. Although the authors understood the difficulties in finding accessible corporations, personal contacts and careful planning enabled relevant case selection within scope of the study.

#### 6.5 Limitations

Since this research was conducted within a limited timeframe the authors were not able to include a third corporation to strengthen the study. If the research had a larger budget and longer timeframe, the authors would have hoped to conduct interviews on-site to receive insights and experience the work-environment physically. Furthermore, due to time limitations, the authors have not had the possibility to thoroughly analyze secondary data, e.g., annual report or other reports from the corporations that could have otherwise strengthened the empirical findings further. Additionally, a larger number of managers or employees with insight and knowledge in the area could have been included to enhance the accuracy of the empirical findings. Furthermore, unequal representation of the corporations and the focus on one industry may have limited the research.

#### 6.6 Suggestions for future research

The authors of this study suggest that future research further explores the need to prioritize among stakeholders in the pursuit of ESG goals as it is unclear how much weight is given to the concerns of external stakeholders, such as local communities and environmental groups, compared to internal stakeholders like investors and employees.

Furthermore, future research could also examine the relationship between short-term profits and long-term sustainability goals by applying a comparative study involving a broader set of corporations. Additionally, further research could examine and conceptualize an ESG development and implementation framework that allow adjustable and practical models and frameworks that are usable for all corporations' sustainability endeavors. The individual adjustments across countries and production sites have been a critical finding of this research, and the authors believe that it is therefore important to develop such models or frameworks to enable sustainability endeavors on a global basis, regardless of location.

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## 8.0 Appendices

### Appendix 1. Example of Thematic Coding

First-Order Concepts	Second-Order Themes	Aggregate Dimension
<p>"Most times you talk about top down or bottom up when it comes to setting strategies. However, I have difficulties in believing that strictly using the top-down approach is the way of setting successful strategies" - Cecilia Våg, Volvo Cars AB</p> <p>Often times each actor as part in a value chain sets their own ESG goals and targets. These are then analyzed, combined and evaluated together with similar targets from another actor in the chain. - Annika Fredgren</p>	<p>Top-down &amp; Bottom-up Approach</p>	<p>Strategic Formulation</p>
<p>"Incorporating sustainability from the beginning of projects, such as the construction of new factory sites, is essential for achieving lower environmental impacts." - Cecilia Våg, Volvo Cars AB</p> <p>"These operations should work in a step-by-step process from the executive leadership to the closest managers and then continue on that path until each production manager is aware of its implications ." - Manuela Greif, Scania AB</p> <p>"Having a strong leadership team is critically important for sustainability implementations. Without the leadership's engagement and support, Scania would not achieve strong results." - Maria Bodingh Johansson, Scania AB</p>	<p>Structures &amp; Management Control</p>	<p>Strategy Implementation</p>

### Appendix 2. Interview Questions

<b>Interview Questions</b>	
<b>1</b>	What role do you believe ESG strategies play in the success of a company, and why do you think they are important?
<b>2</b>	How do you ensure that ESG considerations are integrated into your company's decision-making processes?
<b>3</b>	What are the key drivers that have led your company to prioritize ESG considerations, and how have they impacted your business strategy?
<b>4</b>	How do you measure the effectiveness of your ESG strategies and processes, and what metrics do you use to evaluate their impact?
<b>5</b>	How do you balance the short-term financial performance of your company with long-term sustainability goals, and what challenges have you faced in doing so?
<b>6</b>	What role do stakeholders play in the development and implementation of your ESG strategies, and how do you engage with them to ensure their needs are being addressed?
<b>7</b>	How does your company ensure compliance with ESG regulations and standards, and what steps do you take to stay up to date with changes in this area?
<b>8</b>	How do you ensure that your ESG strategies and processes are aligned with the values and mission of your company, and how do you communicate this to stakeholders?
<b>9</b>	What risks do you see associated with ESG considerations, and how does your company manage these risks in its decision-making processes?
<b>10</b>	What opportunities do you see for your company in incorporating ESG considerations into its business strategy, and how do you plan to capitalize on these opportunities?