



Asset Management industry adapting to climate change: a case study on Nordea AM

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Abstract

Title: Asset Management industry adapting to climate change: a case study on Nordea AM

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Key Words: Asset Management, Climate Change, ESG, Strategy Adaptation, Sustainable Investing.

This case study examines the strategies and adaptive measures taken by Nordea Asset Management (NAM) in response to the increasing demand for sustainable investments amid the ongoing climate change crisis. The case delves into how NAM has adjusted its resources, products, and strategies to adapt to rapid shifts and enhance its competitiveness in the asset management industry. The study aims to determine whether NAM should continue focusing on sustainable investing and positioning itself as a leader in the ESG asset management sector.

This case follows a pedagogical structure and provides an analysis of the European Asset Management firm and its strategic adaptation, with a particular focus on ESG and the efforts of financial services and regulators to bring about change in the industry. Theoretical concepts and frameworks are used for analysis, and teaching notes are included as a guide for solutions.

The study concludes with the recommendation that NAM should continue to differentiate its products and diversify its distribution channels. This recommendation is based on a key element: NAM's resources and dynamic capabilities provide a competitive advantage that have contributed to its status as a ESG leader in the industry, enabling the company to achieve higher rewards; the ongoing Russian invasion makes it difficult to predict how the global situation will evolve and could potentially affect the findings in the teaching notes.

Sumário

Título: Indústria de Gestão de Ativos se adaptando às mudanças climáticas: um estudo de caso sobre a Nordea AM

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Palavras-chave: Gestão de Ativos, Mudanças Climáticas, ESG, Adaptação de Estratégia, Investimentos Sustentáveis.

Este estudo de caso examina as estratégias e medidas adaptativas adotadas pela Nordea Asset Management (NAM) diante da crescente demanda por investimentos sustentáveis durante a crise climática em curso. O caso aprofunda-se em como a NAM ajustou seus recursos, produtos e estratégias para se adaptar a mudanças rápidas e aumentar sua competitividade no setor de gestão de ativos. O estudo busca determinar se a NAM deve continuar se concentrando em investimentos sustentáveis e se posicionando como líder no setor de gestão de ativos ESG.

Este caso segue uma estrutura pedagógica e fornece uma análise da empresa de Gestão de Ativos Europeia e sua adaptação estratégica, com um foco particular em ESG e nos esforços dos serviços financeiros e reguladores para promover mudanças na indústria. Conceitos teóricos e quadros de referência são utilizados para análise, e notas de aula são incluídas como guia de soluções.

O estudo conclui com a recomendação de que a NAM continue a diferenciar seus produtos e diversificar seus canais de distribuição. Essa recomendação é baseada em um elemento-chave: os recursos e as capacidades dinâmicas da NAM proporcionam uma vantagem competitiva que contribuiu para o seu status de líder ESG na indústria, permitindo à empresa alcançar recompensas mais elevadas; a invasão russa em curso dificulta a previsão de como a situação global pode evoluir e pode potencialmente afetar os resultados nas notas de aula.

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List of Abbreviations

AGM	Annual General Meeting
AUM	Assets Under Management
CEO	Chief Executive Officer
CO2	Carbon Dioxide
COP26	UN Climate Change Conference in Glasgow
CSR	Corporate Social Responsibility
ECB	European Central Bank
ESG	Environmental, Social and Governance
EU	European Union
IPCC	Intergovernmental Panel on Climate Change
IWD	Institutional and Wholesale Distribution
MiFID	Markets in Financial Instruments Directive
NAM	Nordea Asset Management
PA	Paris Agreement
RBV	Resources Based View
RI	Responsible Investment
R&D	Research and Development
SDA	Shared Development Agenda
SDG	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
TPI	Transition Pathway Initiative
US	United States
VRIO	Valuable, Rare, Imitable and Organization

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Section 1. Introduction

Climate change poses a complex new set of risks to the global economy. Severe heatwaves, storms, droughts, and sea level rise are already having serious negative impacts on communities around the world, causing loss of life, reduced quality of life, loss of ecosystem services, and economic loss. The frequency and magnitude of these natural climate-related hazards are increasing globally, causing US\$ 1.5 trillion in economic losses from 2003 to 2015 (FAO, 2015), not to mention the impact it can have on human and ecosystem health.

Without proactive measures to adapt to climate change, governments will have to spend additional funds on emergency services and medical costs, and divert resources away from productive economic activity, thus reducing extreme weather impacts government budgets. Beyond the public sector, private companies face potential disruptions to their operations, reduced demand for their products, regulatory changes, and increased funding costs as financial institutions consider climate impacts in their decision-making. Thus, decision-makers are facing the challenge of the necessity of adapting their strategies to such a fast-changing environment.

1.1 Policies that drive sustainable investments

In 2015, the international community recognized three of its international agendas with the potential to boost investment in adaptation. The Paris Agreement, the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs), and the Sendai Framework for Disaster Risk Reduction. Each of these requires the development of specific strategies to achieve their objectives.

The PA "increases adaptive capacity, enhances resilience and reduces vulnerability to climate change, with the aim of contributing to sustainable development and ensuring adequate adaptation responses in the context of temperature targets". The global targets on adaptation set by the PA will be evaluated every five years starting in 2023 to track progress towards the targets (UNEP, 2017). Water, agriculture and health are the sectors most frequently identified as 'key priority sectors' and vulnerable to nationally determined contributions (NDCs).

1.2 Industries' adaptation to climate change

Businesses and industry play a central role in helping societies adapt to the physical impacts of climate change. However, the business and management sector has been repeatedly criticized for not sufficiently considering/tackling climate change as a pressing issue, especially when it comes to adapting to the physical impacts of climate change. Yet, the very essence of management is to cope with change. Investments in adaptation often have a cost-saving nature for end-users and are viewed over the long term, while businesses prioritize revenue generation and short-term investments. While the benefits of climate-resilient investments are usually evident over the long term, companies (and governments) are tempted to base their investment decisions on short-term factors, ignoring the long-term effects of climate change. Agencies, public and private alike, have no incentive to properly assess risks and identify solutions. The main reason for this is a lack of awareness of the risks and opportunities of climate change (Micale et al., 2018). Nowadays, the willingness to bear the extra cost of adaptation to reduce losses from an extreme event of relatively low probability depends not so much on the economics of expected social value but rather on the experience, time horizon, and risk-taking propensity of individual decision-makers (Burton, 1997).

1.3 Trends in sustainable finance

A comprehensive quantification and year-to-year comparison of global adaptation finance are not available due to a lack of data, particularly tracking private sector incentives. Furthermore, harmonized methodologies are lacking in how institutions track and report climate change finance, including approaches that distinguish between 'regular' development projects and 'additional' adaptation components. In 2016, 22 billion of global climate-related finance was spent on adaptation activities (Toma & Stefanelli, 2022), despite rising rates of climate-related disasters, projected risks, and increasing policy efforts to address them. Regardless of the methodology used, it is clear that current investments are only a fraction of what would be needed to avoid costly and devastating future impacts.

Section 2. Literature Review

2.1. Organizational Adaptation

Several studies indicate that strategic change and adaptation are more common under conditions of environmental turbulence and during periods of economic decline. A manager copes with change in the firm's external environment by choosing an appropriate strategy and designing a matching structure. The process of continuously adapting to the changes in a firm's environment is called *strategic management* (Chakravarthy, 1982). It can be viewed as an adaptive process whereby managers seek to achieve a match between an organization's resources and skills and its environment, with the strategy being the basic alignment mechanism (Andrews & Kenneth, 1971; Schendel & Hofer, 1979; Chakravarthy, 1982; Miles & Snow, 1984).

Due to Miles & Snow (1984), successful organizations achieve strategic fit with their market environment and support their strategies with appropriately designed structures and management processes. Less successful organizations typically exhibit poor fit externally and internally, where fit is intended as a dynamic search that seeks to align the organization with its environment and to arrange resources internally in support of that alignment. Managerial decisions concerning such strategies are ordinarily made in a setting that is characterized by *Uncertainty*, about the economic, industry, regulatory, social, and technological environments, competitors' behaviour, and customers' preferences; *Complexity*, concerning the interrelated causes that shape the firm's environments, the competitive interactions ensuing from differing perceptions about these environments; and by *Intra organizational conflicts* among those who make managerial decisions and those affected by them (Amit & Schoemaker, 1993).

The chances of a firm's long-term survival depend on the environmental complexity that can be handled by it. Indeed, a higher complexity requests a higher level of adaptation. Under this statement, there is the assumption that managers possess the capacity to assess their environments and capitalize on relevant opportunities to act, be successful, and increase the organizations' survival odds (Sarta et al., 2021). For a firm, adapting means taking a decision aimed to reduce the distance between the organization and its economic and institutional environments, resulting in a choice to react to, anticipate, or ignore changes in the environment. Existing organizations, especially the largest and most powerful ones, rarely change strategy and structure quickly enough to keep up with the demands of uncertain, changing environments

(Hannan and Freeman, 1989). In addition, the successful implementation of a strategy often requires highly firm-specific assets. Firms may acquire imperfect substitutes for the desired strategic input factor and adapt them, at a cost, to the specific use it intends (Dierickx, Cool, 1989).

The definition of adaptation implies that managers and/or dominant coalitions are able to influence organizational change, and that adaptation in response to changed environmental circumstances is likely to have a positive influence on organizational performance and the odds of survival (Scifres & Elton, 1994). Managers face considerable uncertainty and ambiguity stemming from new proprietary technologies, economic and political trends, competitive actions, changes in societal values, and corresponding shifts in consumer preferences, and choices and judgments on a strategy level can be likely to exhibit idiosyncratic aversions to risk and ambiguity (Amit and Schoemaker, 1993).

Firms likely intend to adapt to multiple environments simultaneously, conditioning the decision-making. The structure of a company must adapt to the characteristics of its environment if it is to survive or be effective (Van de Ven, 1979). Businesses are able to obtain superior performance by implementing strategies that exploit internal strengths and avoid weaknesses while responding to market threats and opportunities (Scifres & Elton, 1994).

2.2 Resource-based view theory

The resource-based approach perceives a firm as a collection of assets or resources which are tied semi-permanently to the firm's management. The importance of firm differences and distinctive competencies as a source of competitive advantage has been widely recognized (Amit & Schoemaker, 1993). Resources may be broken down into two categories: tangible resources, which, as described by Grant, and as well as other authors, can include physical capital (plant and machine, people), or brand names, and intangible, like organizational routines, values, leadership, financial resources and capabilities, which can be considered as static or dynamic (Grant, 1991).

Penrose (1959) and Teece (1980, 1982) have argued that economies of scope arise from the more intensive use of physical, human, or organizational assets which may occur in a multiproduct firm. Several contributions to the Resource-based view of the firm (e.g. (Amit & Schoemaker, 1993), Barney, J.B. (1991), Dierickx & Cool (1989), (Rumelt, 1991), and Wernerfelt (1984)) have developed concepts to show how the strategic use of specific assets

which are imperfectly tradeable and difficult to imitate may be employed to create firm gains (Ingham & Thompson, 1995).

According to Barney, to obtain above-normal returns, firms should focus their analysis mainly on their “unique” skills and resources rather than on the competitive environment. In fact, Barney J.B. (1991) argued that if a firm possesses a particularly valuable resource, that is rare, and obtained in unique historical circumstances, then it can gain a competitive advantage. The sustainability of a firm’s competitive advantage depends on the ease with which its assets can be replicated (Dierickx & Cool, 1989). It can be obtained when existing and potential competitors have neither the ability nor desire to imitate the resources and capabilities of the firm (Amit & Schoemaker, 1993).

Firm managers can reduce competitors’ incentive to imitate or develop close substitutes by, for example, erecting entry or mobility barriers (Rumelt, 1984). Firms operating in industries characterized by high rivalry, high threat of substitutes, high threat of entry, high buyer power, and high supplier power will perform at a lower level than firms operating in industries without these attributes (Porter, 1979). Following a Resource-based strategy means accumulating valuable assets, often guarded by an aggressive intellectual property stance (Teece et al., 1998).

The VRIO framework, introduced by Barney J.B., can be used as a tool to analyze the sources of competitive advantage and determine which of these competitive advantages are considered sustainable. The VRIO framework takes into account value, rarity, imitation and organizational factors to evaluate a firm’s resources and capabilities, weighing short- and long-term benefits (Barney J.B., 1995). While the concept of value refers directly to the firm’s ability to increase revenues and to reduce costs, the concept of rarity is related to the possibility of finding that resource or ability among competitors. As for imitation, it refers to the ease with which competitors can duplicate that resource or capability. Finally, the firm’s organization uses the resources or functions in question. This means that the existence of regulatory or other barriers may limit a firm’s competitive advantage by reducing the extent to which the organization actually uses resources or capabilities (Barney & Wright, 1998).

2.3 Dynamic Capabilities

Capabilities, in contrast to resources, refer to a firm’s capacity to deploy resources, using organizational processes aimed to achieve the desired goal. Often, a resource-based

approach is not enough to sustain a competitive advantage. Capabilities are information-based. They are tangible or intangible processes that are firm-specific and developed over time through complex interactions among the firm's resources. Unlike resources, capabilities are based on adapting, integrating and reconfiguring internal and external organizational skills, resources and functional competencies to match the requirements of a changing environment (Amit & Schoemaker, 1993; Teece et al. 1998)). Simultaneously pursuing economic, environmental and social goals is rapidly becoming a strategic priority for enterprises across sectors and geographical regions, and in a hypercompetitive environment where research shows that the average period for which firms are able to sustain competitive advantage has decreased over time, firms find it harder to achieve long-term competitive advantage (Barreto, 2009).

Dynamic can be referred to situations where there is a rapid change in technology and market forces and the capacity to renew competencies so as to achieve congruence with these changes (Teece et al. 1997). Drawing on the resource-based view of the firm, an increasing number of studies conclude that the sustainable change of a firm's established strategies and operations will ultimately translate into its long-term economic viability and sustained competitive advantage (Bansal, 2005). Winners in the global marketplace have been firms that can demonstrate timely responsiveness.

Dynamic capabilities are those that take into account the rapidly changing stakeholder expectations, identify and shape opportunities and threats, exploit opportunities and intentionally integrate functionality for simultaneous use. This can be called "the ability of a company to remain competitive through building and restructuring". Research on economic and social opportunities (Wu et al., 2012) needs to be constantly reviewed, searched and researched. This includes investing in research and development, constantly identifying customer needs and technical capabilities, as well as understanding latent needs, the industry's structural evolution and market conditions, and possible responses from suppliers and competitors (Teece, D.J., 2007). The ability to recognize opportunities depends in part on the knowledge and learning capacities of the organization to which the individual belongs, particularly about user needs in relation to existing as well as new solutions. This requires specific knowledge, creative activity, the ability to understand customer decision-making and practical wisdom (Nonaka & Toyama, 2007).

2.4 Differentiation and Diversification

Product differentiation is a strategy that involves creating a unique value proposition for a product or service in order to differentiate it from competitors. Miller argued that firms that differentiate their products tend to invest heavily in R&D activities in order to increase their innovative capability and enhance their ability to keep up with their competitors' innovations. Approaching this strategy could be an effective way to increase market share and customer loyalty, as it allows a company to appeal a specific target market and build a strong brand identity.

Increased debt and the need to meet debt covenants may limit a product differentiation firm's creativity and innovation, which are crucial for maintaining a competitive advantage. Biggadike (1979) argued that these firms face high levels of uncertainty due to their reliance on innovation, which requires them to take on more risky activities and bet on products that have not yet been fully developed. This can make it challenging and undesirable for these firms to take on a large amount of debt (Valpour et al., 2012).

Differentiation involves dividing an organizational system into smaller subsystems that each develop specific attributes in response to the demands of their external environment (Lawrence & Lorsch, 1967). Companies can differentiate their products and services through various means, such as product design, branding, pricing and customer service. The impact of diversification on a company's performance depends on the direction of its adaptation and the extent to which new activities are related to its core competencies (Chatterjee & Wernerfelt, 1991).

A tool that helps explaining this framework is the Ansoff's Matrix. This tool helps organizations understand the risks and potential rewards for different growth strategies. It includes four different strategies:

- **Market Penetration:** It involves increasing market share in existing markets with existing products. It's the safest with minimum risk.
- **Market Development:** It is the strategy where the organization enters new markets with existing products. It focuses on sales of existing offerings in new markets and among different types of customers.
- **Product Development:** It involves introducing new products to existing markets. This strategy focuses on the needs and welfare of target customers and markets.

- Diversification: Entering new markets with new products. It's the riskiest strategy, but it can procure greater rewards.

Diversification that builds upon or expands a company's existing capabilities is known as "related diversification" (Teece et al., 1998). Research suggests that companies that engage in related diversification tend to perform better than those that pursue unrelated diversification (Rumelt, 1974). According to Porter (1987), provided that they have skills or resources that they can transfer to new areas, companies can therefore gain a competitive advantage by diversifying (Chatterjee & Wernerfelt, 1991). Diversification can also have various internal benefits for a company, such as generating additional resources to further enhance its expertise in its original domain, reducing long-term costs through scale effects and opportunities for technological innovation, and streamlining production and managerial tasks.

However, diversification also carries potential costs, such as the use of discretionary resources to make value-decreasing investments, cross-subsidies that allow underperforming segments to drain resources from better-performing segments, and misalignment of incentives between central and divisional managers (Berger, 1995). The type of resources a company has can affect the level of diversification it can achieve. In the opinion of Chatterjee and Wernerfelt (1991), tangible and intangible resources tend to lead to more related diversification, while financial resources can lead to any type of diversification. For example, intangible resources such as brand names can be repeatedly used with different products at a low cost to the effectiveness of the company's original operations.

Section 3. Methodology

To achieve the objectives and the validation of the case study, a variety of methods were used. This included exploratory research with both descriptive analysis using secondary data and semi-structured interviews, as well as other data collection techniques. Secondary data refers to data that was originally collected for other purposes (Malhotra & Birks, 2007). In this thesis, secondary data analysis through descriptive data is used to confirm the findings of the case study. Both data from institutions and publicly available business data have been examined and analyzed.

Interviews with NAM employees about the company's strategic approach were conducted as part of the case study analysis. The interviews included employees from various teams and departments to ensure a comprehensive perspective. The semi-structured interview approach was chosen because it allows for flexibility while still maintaining a structured approach (Cohen D, 2006). This method was chosen to assess whether NAM adapted its business strategy to be more sustainable and offer ESG solutions. The table below summarizes the different data sources used in the case study.

Figure 3.1 Case Study Data sources

Data Source	Number	Samples
Interviews	4	Head of IWD Business Strategy, ESG Advisory and Marketing Specialist, Equity Analysts in Fundamental Equities
Documents and Reports	13	NAM's Annual Reports, Annual Outlooks, NAM's ESG Outlook
Articles	6	Interviews, Press Release, Conferences, Social Media Posts

Source: Internal Data source Analysis

Employees were chosen for interviews based on certain criteria. They were required to have a thorough understanding of NAM's ESG strategy and be able to provide a comprehensive perspective. In addition, employees from various levels within the company were interviewed to obtain a range of viewpoints. Four employees from the advisory and marketing departments and the fundamental equities division were interviewed.

Section 4. Case Study & Analysis

4.1 About

This is a pedagogical case study on a Danish asset manager that has extended its investment products to ESG products related: Nordea Asset Management. The purpose of this dissertation is to offer students the opportunity to learn from this case by applying concepts and frameworks discussed in the research and teaching notes. For the case study research, strategists and product specialists from NAM were interviewed.

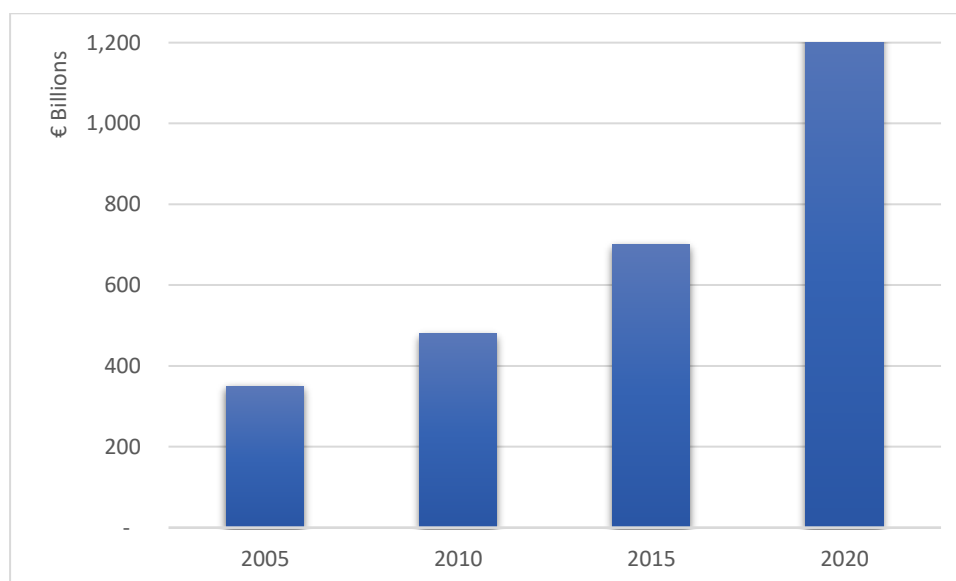
NAM Asset Management is the asset management unit of NAM Bank AB (NAM). It offers European and global investors' exposure to a broad set of investment funds. NAM serves a wide range of clients and distributors which include banks, asset managers, independent financial advisors and insurance companies. Sustainability in NAM is defined as the means by which its business model and implementation through products, services, business relationships and internal operations seek to contribute to the achievement of strong, sustainable, balanced, and inclusive growth. NAM is committed to sustainable business and development by combining financial performance with environmental and social responsibility as well as sound governance practices (*Sustainability Policy by The Board of Directors of Nordea Bank Abp*, 2021).

As an organization, NAM is committed to utilizing its responsibilities as a long-term shareholder by using tools including voting, representation on nomination committees, and engagement with companies to influence companies' environmental, social and governance performance. NAM strives to offer clients responsible solutions by developing and supplying investment products that support sustainable development. The organization views climate change as one of the largest threats to the planet, ecosystems and communities, and a critical issue for long-term investors. It recognizes that climate change and the transition to a low-carbon economy both pose a threat to shareholder value and present new investment opportunities. NAM's overall strategy is to identify sector performance leaders with robust net zero-aligned transition plans and support them in close dialogue. Where customers are not able or willing to make the transition, NAM has to mutually consider its relationship with such clients (*Nordea Sector Guideline The Fossil Fuel Based Industries*, 2021).

4.2 Challenges

As sustainability becomes an industry imperative, asset managers continue to adapt their business strategies to meet the growing demand for environmental, social and governance (ESG) solutions. ESG's custom product assets currently exceed \$7.8 trillion worldwide. Since the beginning of 2019, the net inflow of funds into these strategies has exceeded \$1.3 trillion. Netflows – given by the difference between inflows and outflows – could rise to \$14-19 trillion by 2025 and \$20-30 trillion by 2035, given the strong undercurrent that underpins ESG investment. The new ESG standards in asset management allow the industry to play a greater role in sustainable finance, delivering long-term results increasingly valued by a new generation of investors (Broadridge ESG Outlook Report, 2021), which also makes the industry more attractive. ESG assets have experienced a growth of more than 90% since 2015 (Broadridge, Global Market Intelligence on ESG Investing). Porter's (1980) assertions about the relationship between industry attractiveness and firm performance showed that firms in attractive industries will outperform firms in unattractive industries (Chatterjee & Wernerfelt, 1991). These volumes represent a clear opportunity for asset managers, but the sustainable investment landscape is becoming increasingly complex and difficult to navigate. Tighter regulatory restrictions, broader disclosure requirements, more discriminating fund choices, conflicting sustainability considerations, increased competition, and concerns about going green are making things harder for investment firms (Broadridge ESG Outlook Report, 2021).

Figure 4.1 ESG Funds Net Flows



Source: Broadridge Global Market Intelligence on ESG Investing

There is a growing community of financial institutions taking action and demonstrating leadership on climate change, to address these opportunities (Financial Institutions Taking Action on Climate Change – UNE, 2014). Through strategic decision-making on lending, investment, and credit risk management decisions, financial institutions can guide the investment, production, and consumption behaviour of businesses and consumers toward greener solutions to fight climate change (Toma & Stefanelli, 2022). However, this strategic perspective must be balanced with the financial institutions' focus on value creation and the protection of stakeholder interests. As a result, this new regulatory environment presents new challenges for organizations that must reorganize their measurement, control, and perspective on risk management. Some institutions are allocating capital and directing financial flows towards lower-carbon and climate-resilient activities. Others are taking steps to build the data, tools, and transparency needed to change corporate behaviour, influence policy outcomes, and embed climate change into the functioning of the market.

Historically, financial institutions have had to take action to reduce CO₂ emissions from their internal operations. They did so by retrofitting buildings, optimizing employee mobility and increasing their reliance on renewable energy. Today, financial institutions are also explicitly required to take into consideration how these reductions are achieved through external operations, particularly how external stakeholders influence climate risk (Toma & Stefanelli, 2022). *“The European Union is counting on asset managers to invest in environmentally-friendly companies. As such, it is going to be way more effective than if it is the EU to invest in these projects; asset managers can directly impact the availability of capital for renewable energy projects. This is why the EU was in favour of these regulations imposing asset managers to greenify their products”*, said the Head of IWD Business Strategy at NAM. Institutions are motivated to join forces primarily by their desire to enhance their reputation and image in the market, the need to address pressure from stakeholders, and the goal of promoting business growth based on ethical values. These are options that demonstrate greater sensitivity and awareness of the issue of climate risk. In addition, many of them have established a team responsible for pursuing policies that promote environmental sustainability, focusing primarily on actions to promote sustainable finance through participation in external networks (Toma & Stefanelli, 2022).

The financial sector can make an essential contribution to the fight against climate change by engaging with the companies in which it invests. Corporations are integral to the activities of financial institutions, not only as customers of their services but also as issuers of

bonds and equities that are central components of the investment portfolios of global investors (Financial Institutions Taking Action on Climate Change – UNE, 2014)

Regulation

The EU's SFDR hastened the mainstreaming of ESG more than any other catalyst in the past year. The initial stage of regulation came into effect in March 2021, requiring asset managers to disclose sustainability risks, impacts, and product characteristics. They had to designate funds that promote ESG characteristics, Article 8, and those with a sustainable investment objective, Article 9. Still according to the Head of IWD Business Strategy: *“At the beginning, the regulation was more intricate to tackle because it was the asset managers themselves that had to assess their own products in Art. 6, 8, or 9; it wasn't up to the authority, since they knew that asset managers had more knowledge and capabilities than the authority itself. Here the issue is that everybody is doing things differently because there isn't a unique way to interpret the regulation”*. As of September 2021, firms identified more than 5,700 funds as products designated in Art. 8 or 9 with combined assets of US\$4.1 trillion.

The disclosure requirements of the SFDR present significant challenges and opportunities for asset managers to deliver additional reports and contents to comply with the regulations and meet the needs of funds buyers (Broadridge, 2022).

4.3 Strategy Realignment

NAM's Responsible Investment Strategy is at the forefront of RI in its sector and the markets in which it operates, which is why it deserves some recognition for its leadership in this area. NAM has set quantitative targets and is constantly working to assess the risks of climate change and the impact of low-carbon transition on industries and companies. This requires continuous improvement in ESG methods and sustainability and encourages the industry to increase its ambitions.

NAM's mission is to responsibly generate revenue through:

- Being active in ESG;
- Providing excess returns;
- Providing access to relevant and right assets;
- Demonstrating operational excellence and transparency;
- Maintaining industry-leading risk and performance management.

“NAM was quite in advance in terms of offering products related to climate change, as we launched the Global Climate and Environmental Fund in 2008, so we were already ahead of the curve. But at that time, it was very early in terms of client awareness with the crisis, so the product became successful only over the last years”, said the Sustainable Thematic Product Specialist. When NAM diversified its strategy by entering this new market, the shift was facilitated by the reputation of Nordea Bank – the group’s holding company – which had already given considerable consideration to the issue of sustainability. The institutional investors’ demand on ESG solutions continue to increase in both numbers and complexity. In the short-term, this is particularly the case in the area of portfolio decarbonization and net-zero commitments, but social issues and biodiversity are two key themes on the horizon that will require greater attention.

Biodiversity loss has the potential to trigger systemic risks, such as economic shocks or institutional failures, and can also lead to a series of negative events, known as a domino effect, which may include economic or market failures (Schwarcz - Geo. Lj, 2008). It is considered one of the most significant global challenges of our time. *As the single largest asset manager in the Nordics, we acknowledge our role in preventing biodiversity loss and channelling capital flows toward nature-positive solutions. As part of our sustainability focus, we are committing to collaborate, engage, assess our portfolio’s biodiversity impact, set targets, and report on significant positive and negative biodiversity impacts linked to our investments by at the latest 2024”*. These are the words of the ESG Marketing Specialist. In line with NAM's zero-commitment - 0% emissions by 2050 - NAM has set a 2025 target to ensure that 80% of its top 200 largest contributors are aligned with the PA or else subject to engagement. This target will increase to 100% by 2030.

NAM’s RI approach rests on four overarching principles that support the organization in reducing ESG and climate-related risks, increasing return prospects and managing ethical considerations:

- Exclude the worst: Establish a set of minimum standards based on both investment risk and ethical considerations;
- Prefer the best: Organizations employ asset managers who are at the forefront of investing in companies, integrating ESG into their operations, and transforming business models for a sustainable future;

- Make a difference: Being an active owner is a key tool and an integral part of the organization's investment strategy to ensure that NAM contributes to positive changes in the real economy;
- Transparency: NAM communicates openly and transparently about its practices and objectives for RI.

For NAM, ESG means integrating environmental, social, and governance factors into the investment process, taking into account both sides of the “dual materiality”: actively engaging with investee companies to ensure that they meet their expectations for reliable ESG performance and compliance with international regulations. NAM offers a wide range of ESG solutions for all asset classes, accepting the responsibility to act as an industry leader in ESG/Sustainability. According to the NAM Marketing Specialist, *“the organization is trying to continuously adapt to the external environment and see some fields with great potential for improvement in the field of ESG”*. During the interview, the specialist confirms: *“NAM will continue to give its investors and distributors a full range of choices in ESG investing, providing the data, and disclosure needed to fulfil the requirements of SFDR and MiFID, addressing the need to decarbonize investment portfolios in a way that creates real-world impact – all while striving to deliver superior investment performance”*. The SFDR is the European regulation introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants (Eurosif); while the MiFID is the regulation of EU financial markets seeking to improve their competitiveness by creating a single market for investment services and activities, and to ensure a high degree of harmonized protection for investors in financial instruments (Esma).

Since 2020, NAM has joined the Net Zero Asset Management Initiative (<https://www.netzeroassetmanagers.org/>), a group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit global warming to 1.5 degrees Celsius and to supporting investments aligned with net zero emissions by 2050 or sooner. This means that NAM has a long-term strategic goal to ensure the resilience of its investment portfolio to climate-related risks.

NAM Sustainable Policies

NAM adheres to certain rules established to meet the requirements of fossil fuel production. Fossil fuel companies – companies that derive 5% or more of their total revenues from the exploration, production, or distribution of fossil fuels, and companies that derive 50% or more of their revenues from certain services required for the extraction of fossil fuels – must demonstrate that they have a decarbonization strategy that is consistent with 2°C of global warming or less. Otherwise, they will be excluded from funds adhering to the policy, meaning funds that follow this policy can only invest in fossil fuel companies that stay within their emissions budgets (2°C) (NAM Fossil Fuel Policies).

Fossil fuels – coal, oil, natural gas, and peat – have been the driving force behind the industrial revolution over the past 150 years. Today, fossil fuels account for over 80% of global energy consumption and 40% of the Nordic countries' energy consumption (NAM Fossil Fuel Policies). It is used among others in construction, to produce electricity and heat to run factories, to heat and light homes and offices, to produce medical supplies, metals, plastics, and agricultural products, and to propel cars, trucks, ships, and aircraft.

With this policy, NAM will retain the potential to continue investing in companies that are helping to accelerate the transition to clean energy and fossil fuel phase-out, as well as divest from companies that are slowing the transition. The IPCC has established that achieving zero emissions by 2050 will require cutting in emissions in all sectors and increasing investment in renewable energy and energy efficiency. The IPCC has concluded that by 2030, our societies will need to move from fossil coal, oil and gas to significantly less primary energy. The EU has adopted a long-term strategy to become a zero-carbon economy by 2050. This goal is central to the Green New Deal, a gradual shift away from burning fossil coal, oil and gas in EU and Nordic countries.

4.4 Active Ownership

NAM'S main strategy in order to drive change in the real economy and to manage and mitigate ESG risks in its investment portfolios is called Active Ownership. With this strategy, NAM is committed to be an active owner and to incorporate ESG issues in its policies and practices (ESG Report Q3 2022, NAM). Its objective is to engage proactively and maximize its engagement impact taking into account its internal capabilities, constraints and portfolio

structures. In order to achieve this, NAM has developed a clear prioritization and execution structure. It prioritizes its active ownership efforts according to the following principles:

- Thematic focus areas (e.g., climate change);
- Largest holdings;
- Areas where it considers the ESG risk to be high or elevated.

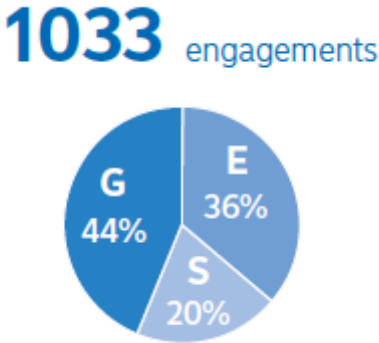
Climate change is a priority area in NAM's active ownership strategy. It uses a risk-based approach and focuses its proactive engagement efforts on portfolio companies and sectors most exposed to climate risks. The organization engages with companies both through individual dialogues and together with other investors and investor coalitions. It also maintains regular dialogue with the asset managers who manage assets on behalf of NAM to ensure that their practices and policies are consistent with its views and requirements. Overall, on behalf of its clients, NAM undertakes a range of engagement activities with companies in order to affect and influence them to improve their ESG practices, including promoting a long-term approach to decision-making. NAM's active ownership tools include voting, attending AGMs, standard setting, engagement with companies, filing resolutions, etc. (ESG Report Q3 2022, NAM).

NAM uses a range of external providers of ESG data as well as internal research and their proprietary ESG scoring platform. As for all ESG-oriented asset managers and asset owners, the dilemma of choosing between engagement and exclusion is central for NAM. The argument for exclusion rests on the need to clearly mark the limits of which corporate activity and/or behaviours are deemed acceptable or not. The argument for engagement, on the other hand, recognizes that the real-world effect of exclusion can be negligible, at least in the short run. An engagement strategy is a form of active ownership, which can be explained as the practice of shareholders entering into dialogue with the management of a company to alter or influence the way in which the organization is managed. In the view of Hamel and Prahalad's (1989, 1994), firms must be concerned not only with profitability in the present and growth in the medium term but also with future position and source of competitive advantage. This view explicitly strategizes how the firm will compete when its current strategy configuration is either copied or made obsolete. In NAM's case, it was a bit different, as the climate and environment strategy they implemented was successful.

Talking about a fund, success can be a problem for its managers (Gard, J. 2020), as it can become harder to manage. NAM’s product managers decided to “soft-close” the fund (Willis Owen) - it is still possible to invest in the fund, but it is usually made unattractive to do so. As the Product Sustainable Thematic Specialist said, *“We implemented the engagement strategy so that we could tackle the climate question in a different way as we were doing with other strategies: with previous strategies, we try to find companies that already have solutions for climate change, so there could be companies that produce renewable energy, as well as companies that provide solutions to make things work more efficiently; with the engagement strategy, we are taking this issue from another perspective, looking for companies that are not there yet when it comes to their climate transition, but that we believe they can be relevant in the future. We, as NAM, and as investors, can make sure that they are on the right path. We have a specific way of looking at their business model, and we try to push them to adopt better practices”*.

NAM has built a dedicated team that engages directly with companies through voting, discussions, and different ways of escalating into the companies, which means working collaboratively with other shareholders. In 2021, NAM had engaged with 1000+ companies, with 36% of which focused on the environmental factor (ESG Report Q3 2022, NAM).

Figure 4.2 NAM’s Engagement Classification activities



Source: NAM’s ESG Outlook Report

ESG can be thought of as a kind of sideshow: public relations or a means of exploiting the higher motivation of customers, investors, or employees. ESG is "good for brands" but it is not the core of the corporate strategy (Pérez et al., 2022). For example, MSCI, a provider of ratings and ratings to ESG, found that nearly 60% of 2021 Speak Out Climate votes were one-time events. Other critics have called ESG's efforts "greenwashing", "targeted wash", or

"awake wash". According to the Edelman research, nearly three out of four institutional investors do not trust companies to deliver on their sustainability, ESG or diversity, equity and inclusion commitments. The Head of the RI team, Eric Pedersen, believes that engagement will continue to be a powerful tool for investors, and it is vital for the asset management community to create broader awareness of the work undertaken behind the scenes to foster positive change (Pedersen & Kenway, 2022).

Reflecting on their ESG concerns, business owners are increasingly exercising their rights to influence the way businesses are managed. Universal owners who engage in active ownership on ESG issues differ in their motivation from traditional shareholder activism by institutions like pension funds and mutual funds, as well as hedge fund activism and entrepreneurial activism. It also differs from hedge fund activism and, more generally, from entrepreneurial activism. Traditional shareholder activism and hedge fund activism typically focus on issues only related to the interests of shareholders only, ESG activism, on the other hand, focuses on issues that impact a wider range of stakeholders, including employees, customers, and creditors. Universal owners have multiple roles (e.g. shareholders or creditors) and long-term fiduciary responsibilities to their customers, beneficiaries and the wider community. This explains the importance they place on the wider interests of stakeholders.

Active ownership means actively engaging in dialogues with target companies through letters, emails, phone calls, and direct conversations with senior management, but also exercising ownership rights at shareholders' meetings on behalf of both its internal and external clients, in addition to screening out irresponsible companies from its investment portfolios. A study shows how the success rate of engagements is about 18%, and it takes on average a sequence of 2-3 engagements before success can be recorded. The average time from initial engagement to success is nearly one-and-a-half years. It has also been demonstrated that in comparison to Governance themes, the chance of achieving success for Engagement and Social themes is lower (13% vs. 24%), and that the number of engagements per sequence is higher (3.7 vs. 2.2). Compared to a comparable group of companies, firms are more likely to engage if they are large and established. The likelihood of being engaged is further increased if the asset manager has high shareholdings in the firm (Dimson et al., 2015).

4.5 Responsible Investment Team

In 2009, NAM created the RI Team in order to adapt to the growing demands for sustainability (Responsible Investment NAM, 2022). Evidence suggests that internal factors, just like external ones, are crucial to the competitive success of an organization. The RBV articulates the relationship between a firm's resources, its capabilities, and its competitive advantage. RBV posits that competitive advantage can be sustained only if the capabilities creating the advantage are supported by resources that are not easily duplicated by competitors. Hence, resources are the basic units of analysis. They include both physical and financial assets, as well as employees' skills and organizational processes. A firm's capabilities result from the use of a set of resources for particular value-added tasks (Hart, 1995). In order for a resource to have enduring value, it must contribute to a firm capability that has competitive significance and is not easily accomplished through alternative means. Such a resource must be difficult to replicate when it is socially complex (Teece, 1987; Winter, 1987), and it is socially complex because it depends on a large number of people or teams engaged in coordinated action, which has as a consequence that only a small number of them, if any, have a knowledge broad enough to grasp the overall phenomenon (Hart, 1995).

NAM's RIs team assesses companies based on internal research and climate data from other providers, which serve as a proxy for SDA-based alignment assessments, which are generally more qualitative in nature (Responsible Investment NAM, 2022). The main parameters of these assessments are:

- The company should have a business model that promotes the fulfilment of the climate objectives of the PA;
- The company should have sound climate risk management;
- The company should have ambitious emission reduction targets.

Additionally, where a quantitative screening is performed, the RIs team may choose to override this screening if the assessment from TPI or other providers is found not to be appropriate. The number of companies on the Paris-Aligned Fossil Fuel is continuously growing over time, as more companies are devising Paris-aligned transition strategies (NAM Fossil Fuel Policy).

The number of investments that have been made, and the resources that have been shifted by NAM into ESG are several. In addition to its RI team, NAM now has 29 Analysts and 45 Investment teams dedicated to ESG. Furthermore, to support the ESG networks, NAM offers ESG e-learning (online training), an ESG Advisory Booklet to provide advisors with a practical guide to meet new ESG challenges enhancing their ESG knowledge, an annual Impact Report, and several contents for advisors, like presentations, videos, podcasts, etc.

“We believe education, awareness and knowledge are the most valuable assets for fostering sustainability and contribute to our mission of creating returns with responsibility. For this reason, we’ve created our ESG education center which includes our accredited ESG e-learning, as well as educational articles and videos, combining our experience with the knowledge of leading experts when it comes to Responsible Investing”, said the ESG Marketing Specialist when she was asked how NAM adjusted its business process to the external needs.

Over the last decade, when the journey towards sustainable finance really took off at NAM, a lot has happened. Today, many investment funds that take sustainability criteria into account can offer a performance that rivals or exceeds that of traditional funds.

NAM’s commitment to be a responsible asset manager began over 30 years ago when it launched its first sector-screened funds in 1988. Over the years, NAM has developed policies, procedures, and investment products to ensure that the companies it invests meet various ESG performance criteria. The organization is taking a variety of approaches to incorporate ESG considerations – including environmental ones – into its range of investment solutions. The combination of all these approaches and strategies underpins its commitment to RI (Responsible Investment NAM, 2022).

4.6 Product Differentiation

NAM is trying to create unique value propositions for products, in order to make it stand out from its competitors. NAM’s management has played on product differentiation to build a strong brand that is associated with high quality, trustworthiness, and ESG leader.

NAM has for instance developed policies and procedures and invested in its knowledge about sustainable thematic to ensure that it is able to offer a range of ESG products that can meet the expectations of fund buyers and investors in terms of performance, and to ensure that

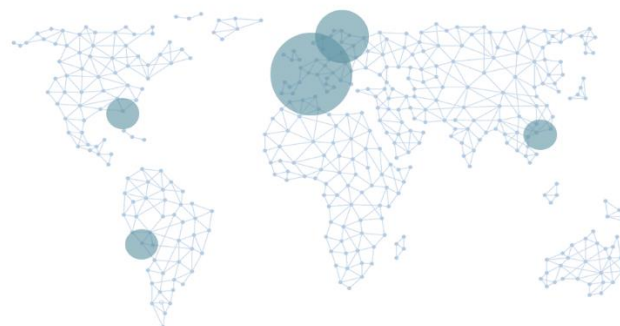
ESG risk is managed throughout the investment process. NAM's products are divided into three categories: Article 6, Article 8, and Article 9 funds. This classification was made by the SFDR to help investors assess and compare products, creating a standardized method for the industry. While Art. 6 products are those that are not linked to social and/or environmental constraints, Art. 8 strategies promote social and/or environmental characteristics. As for Art. 9 strategies, they have a sustainable intrinsic investment objective.

NAM at the end of 2021 had a total of 286 products, where Art. 8 and 9 products, combined represent the 80% of the total, with a 60% of the AUM invested in RI solutions. NAM investment products are subject to regulatory audits that identify companies suspected of violating international environmental, human rights, labour, and anti-corruption laws and regulations. If a company is identified during this review process, an internal company and incident assessment will be initiated. Once this assessment is made, the next phase is action, which usually takes the form of commitment, quarantine or exclusion.

4.7 Market Diversification

Nordea Asset Management is part of the Nordea Group, which is the largest financial services group in the Nordic region, serving around 9.5 million customers. As an active asset manager, NAM seeks to outperform benchmark indexes by buying and selling securities such as stocks, options, and futures. The company operates globally, with a presence in 18 different countries in Europe, the Americas, and Asia. NAM offers its products through two distribution channels: institutional and wholesale (retail) distribution. Within the retail sector, NAM is the largest provider in the Nordic region and it works with approximately 800 distributors, including banks, asset managers, independent financial advisors, insurance companies, and family offices. NAM's client base is evenly split between clients related to the Nordea Group and external clients. In 2021, in order to continue its global expansion and to be closer to clients in the Asia-Pacific region, NAM established its first ESG hub outside of its Nordic headquarters in Singapore. This strategic move has allowed the company to better understand how companies in the region are embracing sustainability. On the occasion of the establishment of the new hub, the CEO Nils Bolmstrand affirmed: *“The ESG hub in Singapore will enable NAM to enhance our local serving, ESG capabilities, investment platform and distribution reach in the region. Significant issues have gained significant interest in Asia in recent years, and investors are increasingly asking for ESG solutions”*.

Figure 4.3: NAM's presence around the world

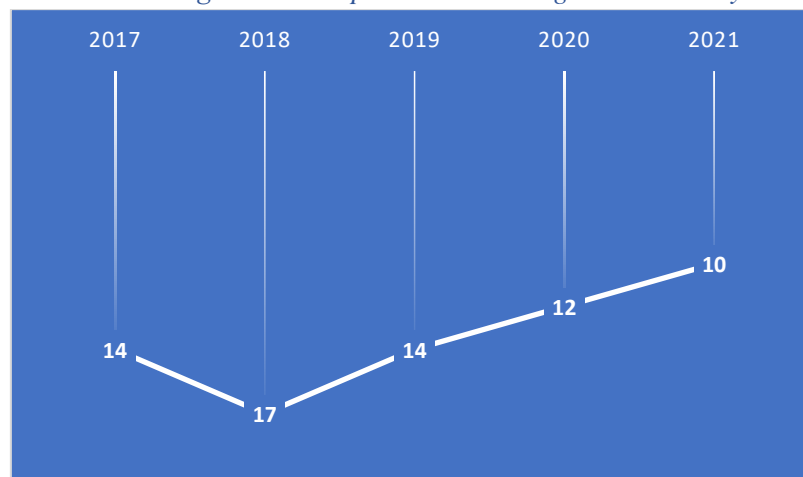


Source: Nordea Investment Management AB

4.8 Customer Awareness

For the Sustainability Thematic Analyst at NAM, the ability to raise the climate-changing issue to the customers was crucial at the beginning. Porter (1980, 1985) thoroughly developed the concept of differentiation from competitors as an important source of competitive advantage: a differentiated product creates brand loyalty and a positive reputation, facilitating premium pricing.

Figure 4.4: NAM's Brand Positioning in the European Asset Management Industry



Source: Broadridge ESG Outlook Report)

When NAM launched its first strategy related to Sustainability, the market was lacking awareness about this topic.

“Now people are becoming more and more aware of this issue, which created as well a lot more interest in our products with a focus on this matter. This new wave definitely impacted the organization, which was able to take advantage of the higher demand for our climate-related products”.

Decisions concerning timing are also crucial in securing competitive advantage (Ghemawat, 1986; Lieberman & Montgomery, 1988): if a firm makes an early move, it is sometimes possible to preempt competitors by setting new standards or gaining preferred access to critical customers. Preempting commitments therefore enable firms to focus and dominate a particular niche. Despite having many competitors, and without taking a leadership position within the asset management industry, NAM has been able to take advantage of differentiated products through a first-mover action in relation to ESG, favoring the acquisition and retention of customers. Opening discussions about sustainability and ESG in general, has enabled NAM’s customers to feel more aware and ready to tackle this issue with their organization/business.

“I think NAM has been quite good in communicating with its stakeholders. Indeed, we can often see NAM on social media posting different stuff about this thematic. As an institution, we are trying to be at the forefront of the ESG topic, and trying to make a real change in society”, said again the Thematic Analyst.

Having a strategy related to sustainability for so long has been a great competitive advantage for NAM’s business. Throughout the years, the organization has put a lot of effort and resources to have a better knowledge of the regulations and be more transparent with the investors, as they have been asking for more accurate and reliable data. With these objectives in mind, in 2021 NAM has released 20+ new ESG Reports, and 700+ ESG Factsheet (NAM ESG Overall Report, 2021).

“Our regular monthly fund factsheets incorporate both financial and ESG data, and we offer Extended ESG reports that include ESG data, voting statistics, SDG exposures and engagement content for the ESG STARS and Thematic funds which are produced on a quarterly basis”, added the ESG Marketing Specialist. The strongest the company is with providing and communicating the data to the investors, the hardest it will be for them to challenge NAM about how it adapts its strategy.

4.9 Competition & Resilience

The introduction of the Sustainable Finance Disclosure Regulations (SFDR) in March 2021 triggered a flurry of activity from product and marketing teams launching or repurposing funds under the classification of SFDR Articles 8 and 9. Some managers were more transparent than others, with the greenwashing debate becoming more and more intense. In addition, European asset managers were increasingly incorporating sustainability credentials in their companies-screening processes to comply with regulatory changes.

Because competition acts to direct resources towards uses offering the highest returns, persistently unequal returns match the presence of either natural or contrived impediments to resource flows. Business strategy research has come to grips with the question of how differences in efficiency are sustained in the face of competition. Inefficiencies in competition can be directly related to different approaches adopted by firms within the same industry. According to this view, product-specific reputation, team-specific learning, a variety of first-mover advantages, causal ambiguity that limits effective imitation, and other special conditions allow for balances in which competitors earn dramatically different rates of return. The figure below shows how NAM's positioning in terms of customer's brand preference within Europe, in terms of Social Responsibility and Sustainability factors. The last column shows how companies have changed their rank position throughout the last year (McGahan & Porter, 1997).

Figure 4.5 European Ranking for Social Responsibility/Sustainability's Brand

Rank	Social Responsibility/ Sustainability	Change
1	Robeco	0
2	Nordea AM	+2
3	CANDRIAM	-1
4	Pictet AM	-1
5	Amundi	+2
6	Natixis	+2
7	BlackRock	-2
8	Degroof Petercam	+1
9	BNP Paribas	-2
10	Federated Hermes	+4

Source: Broadridge, 2022

Social Responsibility/Sensibility is defined as the sensitivity towards ecological, ethical, and/or socially acceptable business operations, reflected in their investment process and in the messages conveyed to investors.

One of the attributes to watch going forward in terms of brand building across the asset management industry is the factor showed in the figure. ESG investing has been identified by many fund selectors as a major driver of change for the organizations in the industry. Clients are becoming more interested and knowledgeable about ESG investing, and asset managers are incorporating ESG themes into their discussions with clients. However, the sector is still evolving, with unclear standards and criteria proving a stumbling block. There are furthermore concerns about the authenticity of underlying ESG investments, as well as about their profitability in certain markets.

Section 5. Teaching Note

5.1 Introduction and Synopsis

The following research notes are designed to help educators approach this case study, which is focused on NAM's strategic decisions in the face of uncertain crises and how it managed its internal and external environments. The case was developed in 2022 to reflect how NAM might shift its strategy to reduce potential burdens on its business and take advantage of potential benefits.

It is important to note that the climate change crisis and the ongoing Russian invasion of Ukraine are not yet over and may impact NAM's position after the release of this case study. The notes provide a series of potential solutions to questions posed, as well as general recommendations based on data collection and interviews.

5.2 Teaching Objectives

The case is intended for students pursuing a bachelor's or master's degree in management or business administration, specifically in courses related to strategy. While no specific background or work experience is required, it is recommended for a better understanding of the practical aspects of the case. These notes include educational goals, suggested questions for assignments, analysis, and discussions, and they aim to apply theoretical concepts to practical situations through organizations and their strategies.

The professor will find relevant information for using this case in the future, including suggestions for questions and possible answers. It is recommended that students have access to the case and proposed questions in order to analyze them and compare their own answers.

Questions for discussion

1. To what extent did the climate crisis affect the Asset Management industry, NAM, and its strategy? Comment on the strategic adjustments made and explain their major intention.
2. What internal resources and capabilities have made NAM successful? Please comment on strategic adjustments and their rationale.
3. How can NAM maintain its ESG competitive edge in its market?

4. How would you define the strategic response to the crisis by NAM, its main goals, and your strategic recommendations for the next few years?

5.3 Analysis and Discussion

Here are the potential solutions and analyses using the corresponding case study and research note knowledge. Educators are advised to use these solutions as a guide for the assignment discussion.

1) To what extent did the climate crisis affect the Asset Management industry, NAM, and its strategy? Comment on the strategic adjustments made and explain their major intention.

This question aims to understand the impact of the climate change crisis on the asset management industry and how NAM was affected, as well as the strategies it employed to adapt. To conduct this analysis, students may use tools such as a PESTEL analysis, which considers both macro and micro environmental factors. It is important for students to recognize the elements that are influencing the market, such as social movements and regulations, and to identify and classify actors that may exert pressure on a business or industry. The last column indicates the level of the opportunity, with a scale from 1 to 4 – with 4 that represents a greater opportunity for NAM.

Figure 5.1 PESTEL Analysis

PESTEL	Factors to Consider	Level
Political	Government (ECB) regulations and deregulations - The government is adhering to all the rules and regulations of the World Trade Organization.	3
	Role of social movements pro-environment.	2
	Regulatory practices - The non-unique way to interpret the regulations is creating some challenges for the businesses.	4
	Current political instability in Europe and worldwide.	3
	Tax policy - Favorable tax policies can allow NAM to expand its business.	1
	Competition Regulation - It ensures that companies operate in a fair competitive market.	1
Economical	Inflation Rate - It can impact the demand for NAM products. A higher inflation rate would lead to a lower number of investments.	4
	Interest Rate - With a higher interest rate, investors will be less incentivized to spend.	3
	Risk of recession - The incumbent crisis will most likely lead to a recession that will impact both consumers and businesses.	3
	Government and Consumer ESG spending trends - Higher spending trends lead to higher purchases and investments in ESG products offered by NAM.	4
	Financial market structure - The liquidity flooding has already impacted financial markets, contributing to a higher inflation rate, and consequently to higher interest rates.	3
	Fiscal and Monetary Policies - The ECB is increasing the focus on pro-sustainability policies.	4

	Unemployment Trends - Higher unemployment rates will lead to lower disposable income in the economy.	1
Social	Demographic trends - Key factor in forecasting the demand of an economy. An aging population may lead to increased demand for retirement planning and investment services.	3
	Education level - Education influence both the level of income and the quality of jobs.	2
	Political and economic instability increases attitudes toward savings instead of investing.	4
	Increased awareness about the climate-changing crisis, not only within the younger population.	3
	Efforts to stop the climate-changing crisis are increasingly focusing on educating the population.	3
Technological	Technological infrastructure - High rate of technological development and innovation across all industries, which makes companies more competitive.	2
	Use of social media – the communication and the promotion of NAM's products through social media channels can help to reach a younger portion of the population.	2
	The proliferation of online investing platforms and more conscious financial education could be considered as a threat of substitutes for NAM.	2
	The growth of new investment products such as cryptocurrencies could be a threat to asset managers that don't allow it.	2
	Growth of available renewable technologies - It can lead to higher investments ESG-related.	4
	Investment in R&D - high investment helps to drive industries forward, making them more effective and flexible to the newest needs.	2
Environmental	Shift to low carbon footprint - It allows asset managers to invest in more 'green' companies.	4
	Focus and spend on green business models - Businesses are changing their business models to be more sustainable.	4
	Paris Climate Agreement and Commitment of National Government under the Agreement - Countries' level of consensus to the agreement will affect businesses.	4
	Influence of climate-changing crisis - the way the crisis will evolve will influence in the next years NAM's business model.	4
	Waste Management - Countries have regulations for waste management and control.	2
	CRS culture - It will impact the way of doing business both for small and large institutions.	3
Legal	Adherence to common laws and regulations.	2
	Data protection laws - NAM needs to assess what are the data laws in the country and what it needs to do to comply with them.	2
	MiFID Regulation - European regulation that increases the transparency across the European Union's financial markets and standardizes the regulatory disclosures required for firms operating in the European Union.	4
	Employment laws - national regulations require businesses to draw up legal employment contracts.	1

Source: Internal PESTEL Analysis

The asset management industry has been impacted by regulations and environmental policies that have been implemented in recent years, and it also appears to be highly affected by the current energy crisis, which will cause further societal unrest. While Europe may face a difficult economic and social crisis, there are still chances for NAM to exploit RIs in terms of financial and technological opportunities. The growth of renewable technologies and a trend towards responsible spending by both the government and consumers will further enhance ESG investments in Europe. In addition to this, regulations are becoming more consistent, particularly in the environmental realm, which will incentivize asset managers to expand their portfolios with products that have a positive environmental impact.

In recent years, corporate activities have primarily focused on commercial goals, disregarding environmental and social considerations that have been underestimated as having significant potential. CSR can be defined as the concept in which companies combine the three elements of ESG: social, environmental, and economic aspects of their activities when interacting with stakeholders. The growth of this culture and leadership within small and large institutions is changing the way business is conducted, with people and the external environment taking on a more central role.

The major threats to the industry are economic and political factors such as the ongoing recession, which has led to an increase in the inflation rate and the adoption of monetary and fiscal policies by the ECB, resulting in higher interest rates aimed at lowering the inflation rate. This has raised concerns about investment trends. A recession can affect the demand for asset management services and the performance of the markets in which asset managers invest. The low interest rates of the past decade in Europe have facilitated investments by consumers, but the current situation is likely to change attitudes towards saving instead of investing, which will have a negative impact on the asset management industry. In times of crisis, when people are facing financial challenges, green investment may also not be a priority.

The asset management industry is highly dependent on technology and advances in technology can have a major impact on the industry. The rise of digital platforms and automated investment strategies has transformed the way asset managers do business, and the increasing use of data analytics and artificial intelligence is likely to continue to shape the industry in the future. Asset managers must also consider national data laws and what needs to be done to comply with them.

2) What internal resources and capabilities have made NAM successful? Please comment on strategic adjustments and their rationale.

To comprehend NAM's resources and dynamic capabilities that have allowed it to remain competitive and successful, students should examine the connection between resources, dynamic capabilities, and resulting outcomes. Using this analysis, students can identify the characteristics that produce the best results in the value chain and further analyze them within the VRIO framework. By doing so, students can identify competitive advantages that provide long-term sustainability and are a core competency that distinguishes NAM from its competitors.

Internal Resources

NAM's internal resources include both tangible and intangible elements. Its tangible resources, which are less significant in the context of NAM's operations as a financial services provider, include the RI team that helps the company expand its knowledge of ESG issues and communicate more effectively with clients. On NAM's website, professional investors can access the RI platform, which provides information about NAM's RI products, including reports and documentation, as well as an RI e-learning module. Additionally, the presence of NAM on social media, with its digital contents, is delivering a more engaging experience for different audiences, which improves its digital brand. Improvements in its marketing communications helps cement its pull-brand status. These tangible resources should be key components in students' evaluations of NAM's tangible resources.

Intangible resources, such as brand reputation and innovative thinking, have played a significant role in NAM's success. Over the past 15 years, the company has developed a strong reputation for its commitment to environmental, social, and governance (ESG) values, which has enabled NAM to a high ranking in the European Asset Management industry in terms of brand preference for sustainability.

NAM has strengthened its reputation in the ESG asset management industry by consistently delivering high-quality products and services to its clients. This has helped to improve the company's overall reputation and strengthen relationships with existing clients who see NAM as a reliable and trustworthy partner for RI strategies. The company's strong reputation is likely to add value to its services, as clients are more likely to trust and invest with a company that has a proven track record of success.

NAM attaches great importance to retaining clients. In addition to using technology and innovation, the company's strategy involves directly engaging with clients through personal interactions. In-person meetings have been effective in building trust and sharing information about NAM's ESG values and products with interested individuals.

NAM has been able to establish a strong reputation and leadership in the asset management market, partly due to its focus on creating a positive and supportive work environment for employees. This has led to employee satisfaction, growth in their careers and personal development.

Capabilities

According to previous research, internal resources alone are often not enough to maintain a competitive edge. As a result, resources can be directed towards an organization's capabilities, which refer to a company's ability to use its resources to achieve a desired outcome.

As a company in the asset management industry, which is known for being highly competitive, NAM has focused on being innovative in order to stand out from the competition and attract customers. The company has focused on product innovation and differentiation, anticipating the trend towards sustainability. By investing in areas where it has a competitive advantage, NAM has been able to stay ahead of the curve and continuously improve its products. When interviewed, most employees believed that this "first-mover advantage" had been a key factor in the success of the company.

Thanks to the organization's innovative values and an innovative way of thinking, NAM has established a great Brand Awareness among clients, employees and the Asset Management market itself, as mentioned above. The company achieved trust via its brand reputation return which led up to a scaling process able to set the company within the top European Asset Management ones. NAM has been able to create a network of trusted partners, exploiting its credibility with diversified clients. The capability of building solid relationships with clients, has empowered the company to seek new customers and channels in Europe and beyond.

NAM's innovation is spread through all its business strategies. For instance, a new ESG strategy was recently launched. Based on the company's goals and results over the past 10 years, it decided to take a new move: to drive the change itself. Investing in green companies is clearly a good strategy, capable to get clients and market approvals and respect. However, NAM has lately decided to suggest the Green change even to companies who did not really seem to make a move. With this in mind, the organisation has launched the engagement strategy, which aims to place investor funds in companies that are not yet ESG but will need to become so.

This is how a company's adaptability can be defined: its ability to recognize a great chance to increase investors shares as well as the brand's reputation, gaining leadership as an

asset management company capable of suggesting ESG change among those who did not feel ready and who, in the end, decided to take up the challenge.

Figure 5.2 VRIO Framework Analysis

Resource of Capability	V	R	I	O
	Valuable	Rare	Inimitable	Organization
Brand Awareness	Yes	Yes	Yes	Yes
Innovation	Yes	No	No	Yes
Adaptability	Yes	Yes	Yes	Yes

Source: Internal VRIO Analysis

In this case study’s analysis, there are three key capabilities mentioned in the VRIO framework: Brand Awareness, Innovation, and Adaptability.

NAM's ability to establish a strong reputation for its environmental, social, and governance (ESG) practices is considered a valuable and unique asset for the business. While other industry leaders such as JP Morgan AM may have a larger market share and a greater overall brand preference, they are not known for their RI approach in the same way that NAM is. In a market where some companies prioritize profit over addressing climate change, NAM's brand awareness in this area can be seen as a sustainable competitive advantage. While innovation is valuable for NAM and has been a competitive advantage for the company, it is not rare in the asset management industry and can be replicated by competitors.

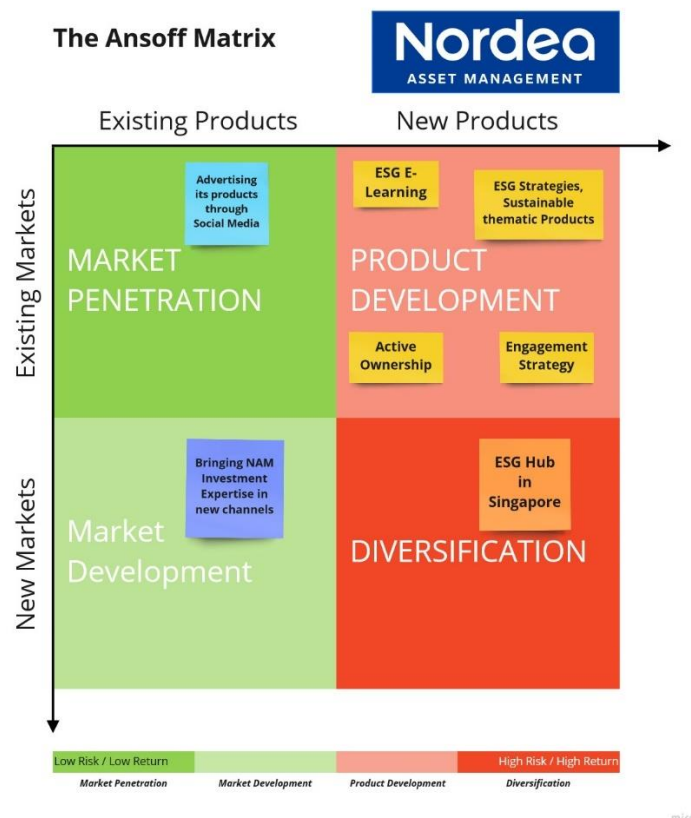
On the other hand, the company's capability for adaptation can be considered a sustainable competitive advantage. This capability helps NAM manage changes in the market and recognize opportunities to increase revenue. It is rare for large institutions in the asset management industry to have a high degree of flexibility, and they often face challenges in restructuring. NAM has demonstrated its ability to adapt by creating a dedicated team focused on RI.

In summary, NAM's strengths lie in its ability to establish a strong brand and adapt to market changes. These are sustainable competitive advantages that the company should continue to prioritize in order to maintain its position in the market.

3) How can NAM maintain its ESG competitive advantage in its market?

This question is designed to explore how NAM can maintain its competitive advantage in the long term and from a strategic perspective. In addition to the resources and capabilities mentioned in the previous question, NAM has demonstrated strong strategic intuitions. To conduct this analysis, students may use tools such as the Ansoff Matrix, which helps businesses plan for growth and assess the risks associated with it. It is important for students to understand the key elements of NAM's business and to identify and classify its strategies in order to effectively evaluate its competitive advantage.

Figure 5.3 The Ansoff Matrix Analysis



Source: Internal Ansoff Matrix Analysis

Market Penetration

For market penetration, NAM uses its current products in existing markets to retain its clients and maintain stable sales. Instead of using aggressive marketing tactics to increase purchases, NAM places a high priority on building strong and engaged relationships with its clients.

Product Development

Thanks to its wide range of products, the firm has been able to establish a strong brand identity with its clients. In recent years, NAM has focused on differentiating its portfolio by implementing ESG and sustainable thematic products in its strategy, which has given the firm a competitive advantage. NAM has used various channels to increase the reach of its products. After the success of its ESG products, NAM introduced the Engagement strategy in its portfolio. This has enabled NAM to establish itself in the industry as a leader of ESG solutions.

Market Development

In terms of market development, NAM has been using its existing products in new markets by expanding into new geographical areas where it had not previously marketed its products. The company ensures that its products are readily available through various distribution channels to increase its reach in local markets.

Diversification

NAM has introduced its ESG products, which have contributed to the company's brand identity, in new markets as a way of diversifying its business. In recent years, NAM has been seeking out new clients and channels, and the establishment of the ESG hub in Singapore is an example of how the company has launched new products, such as ESG strategies and sustainable thematic products, in a new market. Diversification has helped NAM reduce risk and increase opportunities for growth by expanding its customer base and offering a wider range of products and services.

4) How would you define your strategic recommendations to NAM with regards to ESH solutions for the next few years?

In a time rich in new challenges and opportunities, asset managers who are slow to adapt to a rapidly changing world are losing ground, while those who embrace change and innovation remain relevant and connected to investors. The new sustainable regulations are

facilitating some brand differentiation: asset managers with a credible track record in sustainable investing tend to have a distinctive competitive advantage over industry laggards. Overall, the outlook for the asset management industry, and for NAM, is likely to be influenced by a combination of factors. It is important for NAM to stay up to date with developments in the industry and adapt to changes as necessary in order to remain competitive. The factors that could shape the industry in the upcoming years include:

- Regulatory changes: The asset management industry is heavily regulated, the MiFID has had a significant impact on the industry, and there could be further regulatory changes in the future.
- Technological advancements: The sector has seen significant technological advances in recent years. As an example, the use of artificial intelligence and machine learning in asset management has been growing, and it will probably continue to shape the industry's future.
- Economic conditions: The economic environment in the upcoming year will most likely be turbulent, seeing in the horizon the fear of a recession. An economic crisis would lead to lower demand for asset management services.
- Competition: Since the competition is high, any structural changes in the industry will have an impact on firms.

Based on the previous analysis of NAM's business and strategies and the challenges it faces, it is recommended that the company continue to focus on ESG investing. There are several reasons for this recommendation, including:

- NAM currently has a competitive advantage in the ESG segment and has benefited from being an early entrant into this market, which has helped it gain new clients in new markets. Additionally, NAM's dynamic capabilities, including brand awareness and the ability to adapt quickly to change, have enabled it to respond effectively to an evolving market, helping it maintain its competitiveness in a changing environment.
- The current social and geopolitical climate presents a major threat to NAM. The market is facing challenging times, particularly due to the risk of recession, which is likely to result in lower levels of investment, especially in ESG solutions. However, climate change is expected to become a priority again in

the near future, and NAM should aim to maintain its leadership position in the ESG segment.

Section 6. Conclusions and Limitations

The ups and down of the pandemic, economic headwinds and geopolitical tensions are slowing the enthusiasm of investors towards long-term funds, which have shown to be remarkably resilient. Nevertheless, climate change and COP26 are continuing to fuel investor appetite for ESG and thematic investing, leading fund buyers to directly ‘engage’ with the funds industry through digital platforms all over Europe.

Sustainable strategies and thematic investing are taking the lion’s share of net flows. To remain relevant and at the heart of the concerns of fund buyers and, increasingly end-investors, asset managers need to be responsive and constantly adapt to change. Those who are more innovative in delivering funds solutions and positive brand experience, whether differentiating through specialist capabilities or diversified clients, will be able to get the competitive advantage necessary to succeed.

It is uncertain how the ongoing Russian invasion will impact the global market. However, NAM's ability to adapt and respond to rapid shifts in the market will be crucial for its success. To stay ahead of the competition, NAM should continue to invest in long-term trends, such as sustainable investing, even during market downturns. By focusing on these strategic trends, NAM can gain a competitive advantage over other companies that may have to cut back on their investments.

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