A Farewell to Conventional Weapons?

A case study of the Government Pension Fund Global's investments in conventional arms industry.

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Abstract

The Norwegian Government Pension Fund Global (GPFG) is the largest sovereign welfare fund in the world, invested in more than 9,000 companies globally. Because GPFG is owned by the Norwegian state, overlapping consensus is an important pillar in the Fund's standard. However, GPFG's investments in conventional arms producing companies have received criticism from media and NGOs for the last two years, accusing the investments of not reflecting Norwegian values, or for being in accordance with international agreements and the Fund's ethical guidelines. The aim of the thesis is therefore to disclose whether the investments in arms industry weakens the Fund's overlapping consensus. Therefore, this thesis research question is "*Does the GPFG*'*s investments in arms producing companies weaken the overlapping consensus between the Fund and Norwegian citizens, the Funds ultimate owners, by violating national law, international agreements and/or ethical codes of conduct?"* Drawing on CSR and SRI-literature, organisational theory and theoretical perspectives on how state-ownership influence corporate behaviour, I develop five expectations to guide the thesis' analysis. To gather data I use triangulation, combining semi-structured interviews and document analysis, with GPFG serving as the only case. However, I draw comparative lines to Norwegian private funds. The paper concludes that the overlapping consensus is weakened by investing in international arms industry, but not because GPFG is violating institutional framework. It is weakened because the institutional framework lacks clarity and does not reflect Norwegian values. I suggest that the ethical guidelines should be changed in accordance with the Norwegian export control system and remove all room for interpretation.

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Table of Content

List of Figures

List of Abbreviations

ATT	Arms Trade Treaty
CoC	Codes of Conduct
CSR	Corporate Social Responsibility
ESG	Environment, social and governance issues
FIVH	Framtiden i våre hender
GPFG	Government Pension Fund Global
ILO	International Labour Organization
KLP	Kommunal landspensjonskasse
NBC	Nuclear, Biological and Chemical weapons
NBIM	Norges Bank Investment Management
NGO	Non-governmental organisation
NSD	Norwegian Centre of Research Data
OECD	Organisation for Economic Co-operation and Development
POE	Private-owned enterprise
UN PRI	United Nations Principles for Responsible Investment
UNGP	UN Guiding Principles on Business and Human Rights
SDGs	Sustainable Development Goals
SIPRI	Stockholm International Peace Research Institute
SOE	State-owned enterprise
SRI	Socially Responsible Investment
SWF	Social Wealth Fund

Chapter 1 - Introduction

The Norwegian Government Pension Fund Global (GPFG), also known as the Oil Fund is the largest sovereign welfare fund in the world. Today they are invested in more than 9,000 companies globally, valued more than 10,000 billion Norwegian kroner (1,092 billion USD) (NBIM, 2020a, p.30). Norges Bank Investment Management (NBIM) is obligated to manage the GPFG in accordance with the ethical guidelines issued in 2004. The purpose of the guidelines is to ensure broad overlapping consensus in the Norwegian people and seek to avoid investments in the most serious forms of unethical products and behaviour (Regjeringen, 2019a). The Council on Ethics was established to ensure compliance of these guidelines.

GPFG sets footprints all around the world. These footprints are often regarded as positive, but almost inevitably the Fund's investments raise concerns and debate in Norway. This is reflected in media and non-governmental organisation (NGO) criticism especially regarding the investment in conventional arms[1] producing companies. This raises a question of whether there is still an overlapping consensus.

One of the largest Norwegian newspapers, Verdens Gang (VG), published several stories criticising GPFG's investments in arms industry. Especially GPFG's investments in the arms company, Raytheon Technologies, drew attention. VG and Cable News Network (CNN) featured a story on how missiles produced by Raytheon were used to bomb civilians in the Yemen war. In 2014, the human rights organisation Mwatana used trained field investigators to document violence in the Yemen conflict. They were able to tie US manufactured bombs to several incidents since the civil war began in 2015, including an attack killing dozens of schoolboys (Elbagir et al., 2018) These findings raised questions among media, politicians and NGOs in Norway of why GPFG invested in Raytheon. VG also disclosed that the American missile producer General Dynamics, also a GPFG investment, made a bomb killing over 40 school children in Yemen in 2018. The missile was later adjusted by Lockheed Martin, another American arms producer the Fund is a shareholder in (Foss, 2019).

[1] Conventional weapons refer to weapons that are not weapons of mass destruction (IPB, n.d.).

The report “The Oil fund out of the arms industry: why and how[2]” published April 2019 by Framtiden i våre hender (FIVH), Norwegian People Aid, Save the Children, and Changemaker states “It is ethically wrong that Norwegian pension investments contribute to human suffering”. It is estimated in the report that the GPFG is invested in 100 to 150 manufacturers of weapons and weapon systems, and about 250 companies that produce key components to weapons. The authors use a juridical, a financial, an ethical and a security policy argument to justify that investments in arms industry is unethical (Natvig & Vestvik, 2019, p.3-5), using the Raytheon-case as an example.

1.1. Research Question

In 2002 the Norwegian Government appointed Hans Petter Graver to lead a commission publishing a final report suggesting ethical guidelines for GPFG (NOU, 2003) that were implemented in 2004. The report is often referred to as the “Graver-report”. The Graver Commission concluded that Norway is a pluralistic society and there is no clear agreement on what Norwegians view as ethical (NOU, 2003, p.12). The report explains that it is therefore difficult to establish a general, precise and unanimous justification for filtrating certain products including conventional weapons:

> “The committee has assessed the possibility of making all military weapons in general object of negative filtration. The Committee has come to the decision that there will probably not be ground to anchor such a suggestion in an overlapping consensus in the Norwegian people” (NOU, 2003, p.30, trans[3]).

However, the world has changed since the guidelines for GPFG were issued. In a survey conducted by the data collecting company Norstat, on behalf of Save the Children in 2019, 1015 people over the age of 18 were interviewed. Six out of ten (59 percent) said that it was not okay that the Fund invested in military equipment and arms producing companies. 27 percent answered that these investments were okay (Natvig & Vestvik, 2019, p.5). Thus, there seems to be reason to review whether the overlapping consensus is weakened by investing in companies producing arms and military equipment. The research question addressed in this thesis is therefore:

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[2] Title in Norwegian: «Oljefondet ut av våpenindustrien: hvorfor og hvordan»,
[3] When using translated quotes, I will cite them “trans”.

Does the GPFG's investments in arms producing companies weaken the overlapping consensus between the Fund and Norwegian citizens, the Funds ultimate owners, by violating national law, international agreements and/or ethical codes of conduct?

This research question is highly relevant because weapons are on the agenda, both among Norwegian media and NGOs, but also internationally. In 2018, the United Nations (UN) published an agenda for disarmament as conflicts and types of weapons used in conflicts are becoming more complex. The agenda states that the global military expenditures are at its highest level since the fall of the Berlin Wall (UN Office of Disarmament Affairs, 2018). Because the rapidly changing world, the Norwegian Government decided to appoint a new committee in 2019 to review the ethical guidelines. The new Committee mandate states:

> "The Graver Commission emphasised that the ethical guidelines needed to be based on ethical norms that are broadly supported in Norwegian society, whilst also reflecting international agreements and initiatives ratified or endorsed by Norway. This would, according to the Commission, ensure that the ethical requirements are based on a solid foundation with an overlapping consensus both nationally and internationally" (Regjeringen, 2019b).

I will address the research question by using five expectations drawn from literature and theoretical framework.

1.1.2 Contribution to the field

The aim is to disclose whether there is overlapping consensus between the Norwegian norms and the GPFG's investments in conventional arms producing companies. Part of my goal is also to fill some knowledge gap in literature. Commonly, GPFG is used as an exception in the academic literature on sovereign wealth funds, but I hope to shed light on how academic literature can be applied to GPFG as well. Although it is difficult to generalize from a case study, it may give new insight that other researchers can apply to new studies.

1.2 Research Design, Scope & Key Findings

To address the research question, I use a descriptive case study. To collect data, I am using triangulation mainly from two different sources to strengthen the validity and reliability. As primary sources I used expert interviews and document analysis; the document analysis will also include secondary sources. The most essential documents are international agreements, the Graver-report, annual reports, the report from FIVH and GPFG's ethical guidelines. In addition, I use data from Stockholm International Peace Research Institute (SIPRI). Though this thesis is not a comparative study, I wanted to see what GPFG does differently from private funds, using Storebrand and Kommunal landspensjonskasse (KLP) as examples. Storebrand is Norway's largest private asset manager ranked at the top of the list of most ethical investors (Etisk bankguide, 2019). KLP follows Storebrand on the list of most ethical funds (Etisk bankguide, 2019).

Because this is a master thesis, certain limitations had to be made. First, my analysis is centred on the period between 2003, when the ethical guidelines were established, up until 2020. Second, I will not discuss the term "overlapping consensus", but rather examine whether NBIM's investments in arms companies are in accordance with what the Graver-report and the Norwegian Parliament (Stortinget) define as overlapping consensus. Third, I am focusing on investments in conventional arms production as this has recently been debated in Norwegian society and is still on the agenda. Conventional weapons are especially interesting because there is a dilemma related to such weapons. Weapons are used in war, conflict and to inflict harm on others; however, weapons are also used to create and maintain peace, and all nations have the right to defend themselves. Weapons are something that affect every country in the world, some more than others. Fourth, because of limited time I chose limit the number of sources to analyse. I assume that national laws followed by NBIM and I have therefore decided to focus on the Fund's management mandate. I also chose to only study the international agreements most relevant to conventional arms (Arms Trade Treaty), and those that are most influential to NBIM's responsible investment practice (UN Guiding Principles on Business and Human Rights & OECD Guidelines for Multinational Enterprises). There are numerous documents in relation to the GPFG and I therefore primarily used NBIM's annual report and the annual report for responsible investment and the Graver-report. Finally, I conducted five interviews as primary data in this thesis.

I find that the overlapping consensus is weakened by investing in international arms industry, but not because GPFG is violating institutional framework. It is weakened because the institutional framework lacks clarity and does not reflect Norwegian values. I suggest that the ethical guidelines should be changed in accordance with the Norwegian export control system and remove all room for interpretation.

1.3 Disposition of the Thesis

The thesis is organised as follows: After this introductory chapter follows Chapter Two presenting the GPFG's background. This is to clarify the Fund's structure in order to understand how GPFG is managed and how it has developed over the years. Chapter Three combines literature review and theoretical perspectives. This will provide the theoretical framework which helps me develop expectations guiding the analysis. Chapter Four outlines the research design used to conduct this analysis. It goes through the strengths and weaknesses of the qualitative method point by point; case study, interviews and document analysis, as well as challenges in my research. In Chapter Five, I conduct the analysis using a combination of empirical discussion and theoretical discussion of the empirical findings. I will summarize the most important findings and conclude in Chapter Six, where I also suggest changes to GPFG's current ethical guidelines. Lastly, I have added an epilogue presenting the new evaluation of the ethical guidelines published 15 June 2020.

Chapter 2 - The Government Pension Fund Global

In this chapter I will explain how and why the Fund came to existence, and the Fund's current structure. This is important in order to understand the full picture of how decisions are made and why investments in production of conventional weapons is debated. At the end of the chapter the foundation of GPFG's responsible investment strategy will be explained briefly.

2.1 Historical Background

In 1969, one of the largest offshore oilfields in the world was discovered in the North Sea. The discovery increased Norway's economy drastically and it was decided that revenue from oil and gas should be used carefully to avoid financial imbalance. In 1990, the Norwegian parliament passed a legislation to avoid economic imbalance, but also to preserve the Norwegian welfare state for future generations. Therefore, the Government Petroleum Fund, now the GPFG, was established (NBIM, n.d.(a)). The Fund was to be managed by the Ministry of Finance and the first instalment was made in 1996. In 1997 the ministry decided to invest 40 percent of the fund in equities, and the year after, the management was delegated to the Norwegian Central Bank, Norges Bank, (NBIM) to ensure efficiency and specialization (NBIM, n.d.(a)).

The Norwegian Government's engagement in Corporate Social Responsibility (CSR) emerged comparatively early in 1998, with the establishment of a broadly oriented stakeholder forum "KOMpakt", the Consulting Organ for Human Rights and Norwegian economic engagement abroad (Regjeringen, 2011). The purpose was to strengthen human rights awareness in businesses, and increased dialogue between human rights groups, Norwegian industry, and Norwegian public administration (Utenriksdepartementet, 1999, p.188).

In 2002, civil society and organisations became more aware of the effect investments could have in the rest of the world and the Fund saw the need for restrictions (RORG, 2017, p.13). Therefore, the Parliament appointed a commission to draw up ethical guidelines for the GPFG. This commission was led by Professor Hans Petter Graver. In 2003 the commission recommended establishing ethical guidelines that would be overseen by a Council on Ethics, which was formally implemented in 2004 (Regjeringen, 2006). These ethical guidelines made certain restrictions for GPFG's investments, which I will return to in part 2.4.

2.2 The Aim of the Fund

GPFG's purpose is to ensure responsible and long-term management of revenue from Norway's oil and gas resources so that this wealth from non-renewable resources can benefit future generations, as an oil-based economy is considered non-sustainable. There is a broad political consensus on how the Fund should be managed (NBIM, n.d.(a)). GPFG has two ethical commitments:

1. The petroleum resources belong to both the present and future generations. Therefore, the first responsibility is to manage the resources on behalf of the Norwegian people (Regjeringen, 2019b). This ethical commitment corresponds with mandate § 1-3, that the objective is the highest possible return at an acceptable risk (Lovdata, 2010, § 1-3).

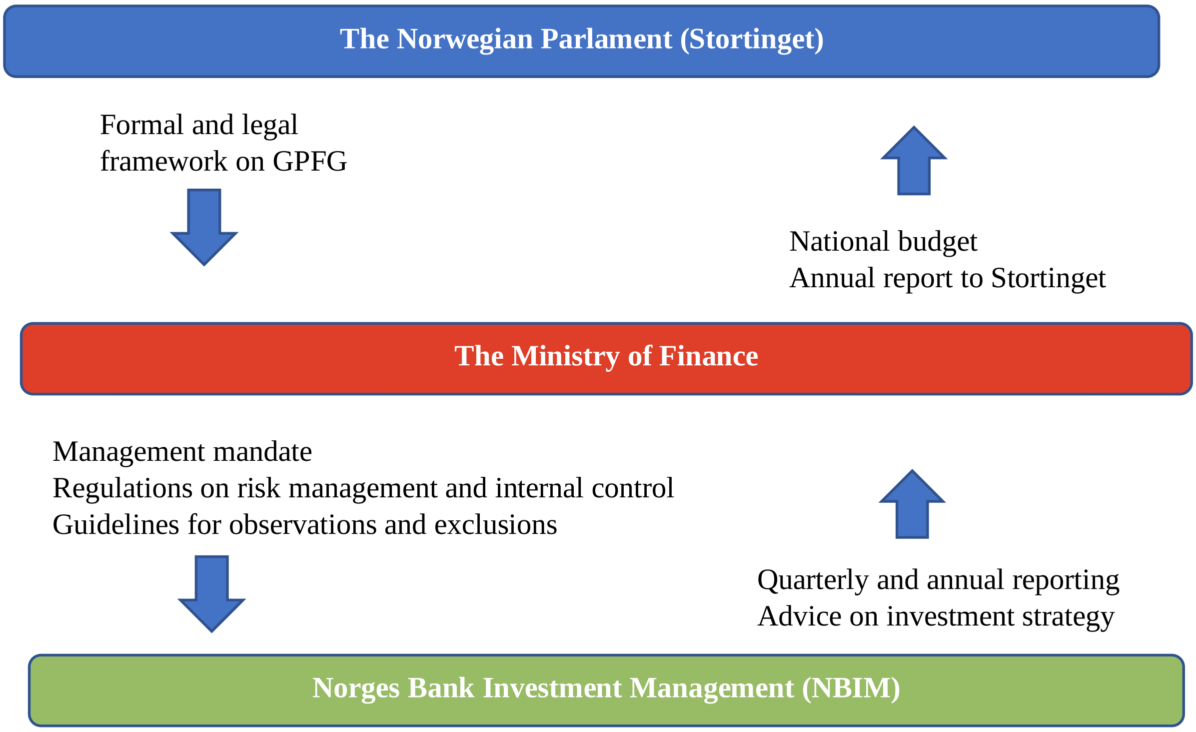
2. GPFG will be managed in accordance with the ethical guidelines that have a broad foundation in the Norwegian people and seek to avoid investment in the most serious forms of unethical products and behaviour (Regjeringen, 2019b). This corresponds with mandate § 1-3(4), that the Fund shall not invest in companies that are excluded in accordance with the provisions of the GPFG observation and exclusion guidelines[4] (Lovdata, 2010, § 1-3).

2.3 GPFG'S Structure

The Fund's administration is sectioned in three. The Ministry of Finance is responsible for establishing overall policy for GPFG. Norges Bank controls the Fund's management. Lastly, the autonomous Council on Ethics manages the ethical issues in the investments made by Norges Bank (NBIMb; Backer, 2009, p.453). The different departments will be explained in this section.

[4] The mandates may be viewed here: https://lovdata.no/dokument/INS/forskrift/2010-11-08-1414.

Figure 1: The Funds administration (Finansdepartementet, 2018, p.22):



2.3.1 The Ministry of Finance

The GPFG is owned by the Norwegian people, which are represented by the Norwegian Parliament, Stortinget. The Fund's formal and legal framework has been set by Stortinget in the Government Pension Fund Act[5]. In the Pension Fund Act, The Ministry of Finance is listed as the formal owner of the Fund and given overall responsibility. The Ministry of Finance sets the overall investment strategy and has issued guidelines for its management in the Management Mandate for the GPFG. However, because the Fund is owned by the Norwegian citizens, larger changes to the Funds strategy must be made by Stortinget to ensure broad political support for changes (NBIM, 2020a, 27; Backer, 2009, p.453).

[5] About the Government Pension Fund Act: https://www.nbim.no/en/organisation/governance-model/government-pension-fund-act/; https://lovdata.no/dokument/NL/lov/2005-12-21-123?q=lov+om+statens+pensjonsfond.

2.3.2 Norges Bank

The New Central Bank Act[6] assigns the role of managing the fund to Norges Bank, and NBIM implements the management mandate in accordance with instructions and mandates from Norges Bank's Executive Board (NBIM, 2020a, p.27).

There is broad consensus in Stortinget that the GPFG is not to be used to promote Norwegian foreign policy. Norges Bank manages the wealth in the Fund for future generations *"safely, efficiently, responsibly and transparently"* (NBIM, 2020a, p.27). The goal is to reach the highest possible return with acceptable risk within the constraints set by the management mandate (NBIM, 2020a, p.27). Capital from the oil and gas production is transferred to the Fund, but most deposits are made by investments in equities (shares and stocks in a company), fixed income (bonds and securities) and real estate. As I study investments in arms producing companies, I will focus on equities. To protect Norway's economy, GPFG is only invested outside Norway. The Fund's investments are spread all over the world but with a concentration in the US with 39 percent, and Europe with 33,5 percent of all equity holdings (NBIM, 2020a, p.44). To limit the exposure to developments in individual companies, industries and countries, NBIM spreads the investments over different companies, sectors and geographical areas. The GPFG's equity portfolio may not be invested in more than 10 percent of the voting shares in an individual company (Regjeringen, 2019a). Size, long-term horizon and limited liquidity requirements are reflected in a reference portfolio that aims to obtain the best possible long-term risk/return profile for the Fund (NBIM, 2020a, p.63).

NBIM also conduct active ownership by contributing actively to the development of international standards, participate in consultations and engage regularly with international organisations and regulators in the most important markets. There are several ways Norges Bank execute active ownership. One of them is through research and collaboration with academic institutions to inform the investment strategy on global trends and topics that may be relevant for long-term financial value creation (NBIM, 2020b, p.28). As active owners, NBIM votes in shareholder meetings, and they also hold meetings with companies they are invested in during the year. They aim to be consistent and predictable in their voting, meaning that the decisions can be grounded in their principles. They also create predictability by being open about how they have voted to the public (NBIM, 2020a, p.32).

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[6] About the New Central Bank Act: https://www.norges-bank.no/en/topics/about/Mission-core-responsibilities/Legislation/Norges-Bank-Act/.

NBIM conduct dialogue with the companies they are invested in to discuss the board's responsibilities, shareholders' rights and themes that are important to the GPFG such as environment and human rights (NBIM, 2020b, p.42). NBIM base their dialogue on seven expectation documents: children's rights (2008), climate change (2009), water management (2010), human rights (2016), tax transparency (2017), anti-corruption (2018) and ocean sustainability (2018) (NBIM, 2020b, p.26-27). Weapons can be reflected in the document on human rights. Finally, they set companies under observation to exclude them if they violate the ethical guidelines.

2.3.3 Responsible Investment & The Council on Ethics

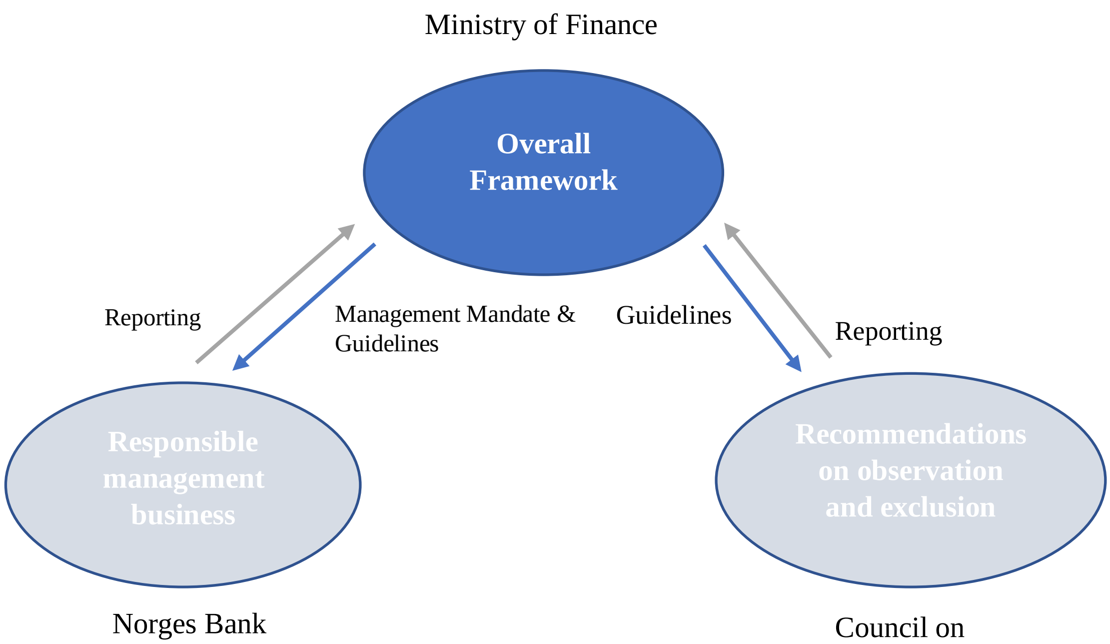
To ensure acceptable risk NBIM practice responsible investment *"(...) in order to promote good corporate governance and responsible business practices"* (NBIM 2020a, p.73). In their annual report, NBIM writes that responsible investment supports the Fund's objective in two ways:

1. Seek to improve long-term economic performance of their investment;
2. Aim to reduce financial risk associated with companies' environmental and social behaviour. Therefore, NBIM assess governance and sustainability issues that could impact the GPFG's return over time and integrate it into their work on establishing principles, exercising ownership and investing responsibly (NBIM, 2020a, p.73).

The Council on Ethics was established to ensure overlapping consensus (Regjeringen, 2019b). The council consist of five members who are recommended by Norges Bank and appointed by the Ministry of Finance. The Council advises Norges Bank on whether investments are in accordance with the Fund's ethical guidelines for observation and exclusion of companies (NBIM, n.d.(c)).

Decisions on observation and exclusion are based on either products or company practice. The Fund cannot invest in companies producing certain products. Nor can GPFG invest in bonds issued by the governments of Syria or North Korea (at the moment). Finally, the Fund cannot be invested in companies violating fundamental ethical norms (NBIM, 2020b, p.77; Etikkrådet, n.d(a)). The guidelines will be introduced in more detail in the analysis. Companies' activities neglecting guidelines may lead to exclusion from the GPFG's portfolio. The Council on Ethics only gives recommendations to Norges Bank. The Bank makes the final decisions.

Figure 2: Follow-up on the Funds ethical framework (Kapoor & Zeilina, 2017, p.12).



2.3.4 GPFG as a Universal Owner

GPFG is referred to as a universal owner, which the Ministry of Finance define as an owner with investments spread on a large number of companies in many industries and countries with a long-term horizon (Finanskomiteen, 2009-2010, p.39). As a universal owner, the Fund has an interest in sustainable development and recognise a set of international principles and standards both from the United Nations (UN) and the Organisation for Economic Co-operation and Development (OECD). The standards are voluntary, non-statutory recommendations and express expectations from companies when it comes to environment, social and governance issues (ESG). NBIM expect the companies in the portfolio to do their best to meet these standards (NBIM, 2020b, p.20-21). NBIM reccongnize the following international agreements:

The OECD Guidelines for Multinational Enterprises are a set of government-endorsed recommendations for companies that operate internationally. The aim is to support sustainable development through responsible business conduct, trade and investment. Because the OECD Guidelines are voluntary, they cannot be enforced, but it is expected that companies apply the guidelines (OECD, 2011, p.13; NBIM, 2020b, p.20).

The UN Global Compact is a broad coalition between the UN and the business world promoting Corporate Social Responsibility (CSR). It is based on ten principles requiring companies to respect human rights, uphold the freedom of association and the right to collective bargaining, and eliminate all forms of forced labour, child labour and discrimination in the workplace. The Global Compact also encourages companies to support the UN Sustainable Development Goals (NBIM, 2020b, p.20).

One of the most important movements in developing guidelines for corporate responsibility is the **United Nations Principles for Responsible Investment** (UN PRI) which *"works to understand the investment implications of environmental, social and governance (ESG) factors (...)"* (UNPRI). The UN PRI movement has made responsible investment more palatable to pension funds and other institutional investors who have previously been cautious regarding concept of ethical investment (Woods and Urwin, 2010, p.4).

Norges Bank also refers to the **UN Guiding Principles on Business and Human Rights** (UNGP), which were unanimously endorsed by the UN Human Council in 2011. The principles consist of three pillars; the state duty to protect human rights, the corporate responsibility to respect human rights, and access to remedy for victims to adverse impacts (NBIM, 2020b, p.20; OHCHR, 2011).

2.4 Storebrand & KLP

Storebrand Group is a Norwegian company that provides pensions, savings, insurance and asset management in Norway and Sweden. Storebrand has NOK 831 billion invested in over 3000 companies all over the world that are managed on behalf of their over two million customers. Storebrand has two main objectives: *"to generate a return to our shareholders and to provide the best possible return for our customers on their savings so they can be financially secure during their retirement"* (Storebrand, 2019, p.24). Storebrand is a universal owner that works as a long-term investor internationally. They focus on responsible investment and active ownership. As NBIM, Storebrand conduct dialogue, voting, observation and exclusion, based on the same international framework, but they take the ethical guidelines further than the GPFG which will be elaborated in the analysis (Storebrand, n.d.(b)).

Kommunal landspensjonskasse (KLP) deliver *"financial and insurance services to the public sector, enterprises associated with the public sector and their employees"* (KLP, n.d.(a)). KLP is owned by municipalities, health enterprises and businesses with public-sector occupational pensions (KLP, n.d.(b)). KLP conduct responsible investment and follow international norms like Storebrand and GPFG. They also conduct active ownership using voting and dialogue, exclusion and observation based on ethical criteria that are similar to Storebrand and GPFG.

Chapter 3 - Literature Review and Theoretical Framework

I will apply a framework that gives explanations to why companies act ethically and responsibly in order to argue why the GPFG invests in companies producing conventional weapons even though many consider it unethical. The theoretical framework and literature review in Chapter 3 are divided into three parts. Part One will look at strategies characterising global investors such as the GPFG and mechanisms making companies implement such strategies. It will include Corporate Social Responsibility, Socially Responsible Investment and Universal Ownership in order to show how these frameworks might lead to the implementation of international regulations and internal codes of conduct.

Following, Part Two maps out external mechanisms that might lead to implementation of voluntary international regulations and codes of conduct. Here I will present organisational theory, the myth perspective, and spotlight theory that all give an explanation to how stakeholders might lead companies to act responsibly.

Finally, Part Three will introduce theoretical framework on how private and state-owned investors might differ from each other and why. This is highly relevant to understand GPFG's different considerations, but that might not be an issue for privately owned funds. This is also useful to address as there is a gap in the academic literature on understanding GPFG investments.

PART ONE – INTERNAL MECHANISMS

As a framework for my analysis I will use literature and theoretical perspectives on Corporate Social Responsibility (CSR) and Socially Responsible Investment (SRI). CSR and SRI are frameworks, strategies and implementation processes, showing the way for how and to what degree companies act responsibly when investing. First, however, it will be useful to briefly review literature on social wealth funds (SWFs) to show how and why GPFG would implement CSR and SRI, and how it may influence their investment strategy.

3.1. Social Wealth Funds

Backer (2009) examine SWFs. He points to the lack of consensus on defining SWFs but marks the international Working Group's definition of Sovereign Wealth Funds as likely to be the most influential:

> "SWFs are special purpose investment funds or arrangements, owned by the general government. Created by the general government of macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports" (Backer, 2009, p.437-438).

The definition contains three key elements: ownership, investment purposes, and objectives. Sievänen et al. (2012) provides a shorter definition. They view SWFs as institutional investors who assure the income of part of the population for a long period of time (p.137).

3.2 Corporate Social Responsibility

CSR was first properly put on the agenda when several companies started to reflect on how they affect society and the consumer awareness around corporate activity increased. This led companies to incorporate CSR-programs in their business models (Baker & Nofsinger, 2012, p.3), including Norwegian companies.

The 1990 approaches to CSR were characterised by approaches such as stakeholder theory, business ethics theory and corporate citizenship (Carroll, 1999, p.268-292), which were theoretical perspectives focusing on expectations and pressure. In contrast, CSR activities today seem to become more strategic, regarding CSR as a competitive advantage. Some firms try to actively link their CSR strategies to core activities to manage international operations (Kolk & Van Tulder, 2010, p.120). Because NBIM manages GPFG it often act as a private company. It is therefore relevant to look at different CSR-approaches when analysing the GPFG.

3.2.1 Definitions

Even though CSR has been part of the literature for decades there is no consensus about a definition today (Rhee et al., 2018, p.4). I will therefore present some of them here.

Carroll (1999), one of the most influential authors on CSR, defines CSR as involving managing a firm in such a way that it can be *"economically profitable, law abiding, ethical and socially supportive"* (p.268).

CSR can more specifically be defined as a guide or tool for decision making and implementation processes, guiding business activity that promotes and protects international human rights, working rights and environment standards, following laws within the society the company operates within (Baker & Nofsinger, 2012, p.3).

Kolk and Van Tulder (2010) write that CSR seems to be "beyond compliance" and advancing a social cause. It does not involve systematic overcompliance or only *"sacrificing profits in the social interest"* (p.120). Further, Kolk (2016) says that CSR begins where the law ends, and that this is why CSR differ from country to country (p.24).

To summarise, all three definitions focus on "law abiding", "economic performance" "ethics" and "social rights". The problem occurs after "law abiding" where Kolk argues that CSR begins where the law ends because there is no consensus as to what is ethical. Is it to create economic revenue or social and environmental performance? And are those really two opposites? Porter and Kramer (2006) try to intertwine the two. They claim that part of CSR is to ensure sustainability. Sustainability often invokes the triple bottom line of economic, social and environmental performance. This means that companies should secure long-term economic performance by avoiding short-term behaviour that is damaging to society or environment (Porter & Kramer, 2006, p.4). One of the most used definitions of sustainability was developed in the 1980s by the Norwegian Prime Minister Gro Harlem Brundtland: *"(…) meets the needs of the present without compromising the ability of future generations to meet their own needs"* (UN, 1987, p.28).

I follow Kolk's argument, that CSR begins where the law ends. I view CSR as a guide or tool for decision making and implementation processes that leads the way for business activity promoting and protecting international human rights, working rights and environment standards (Baker & Nofsinger, 2012) ensuring sustainability (Porter & Kramer, 2006).

3.2.2 Theoretical Classifications

As with definitions, there are many different theoretical perspectives on CSR that I will review in this section.

Garriga and Mele (2004) classifies CSR-theories into four groups (p.52-53):

1) *Instrumental theories* assume that the corporation is an instrument for solely creating revenues. Any social activities are accepted only if it is consistent with creating wealth.

According to Garriga and Melé, the instrumental theories are most popular in the business sector.

2) *Political theories* emphasise social power of corporation, and points to the companies' responsibility to the society. Under political theories, social activities are allowed.

3) *Integrative theories* suggest that businesses should integrate social demands because they depend on society for its continuity and growth. Among these theories is the *stakeholder theory* which together with institutional theory is the most dominating approach in CSR literature (Rhee et al., 2018, p.3-4).

4) *Ethical theories* acknowledge that the relationship between business and society is interlinked with ethical values. These theories include sustainable development, universal rights and normative stakeholder theory. The main difference between 3 and 4 is that category 3 involves the society's take on ethics while ethical theories focus on how a company views ethics. Rawls (1972) divide ethical theories by distinguishing between positive and negative ethical duties. Positive duties are making additional contributions to the well-being of society, or "doing good", while negative duties are pre-empting negative impacts on societies and the environment by "avoiding harm" (Van Zanten & Van Tulder, 2018, p.214).

Garriga and Melé (2004) argue that even though these four groups are very different, they are also interlinked, and one is likely to find elements of several or all these theories in the CSR-approaches (p.53).

Rhee et al. (2018) also classify CSR. Responsive CSR includes Carroll's (2004) categories as legal and institutional, coded and regulatory, ethical and charitable CSR where the CSR responds to a violation, meaning that they act after an event. On the contrary, strategic CSR is regarded as a more active commitment involving the investment of long-term resources with a high level of willingness and capability. Strategic CSR considers social responsibility activities to be chances of opportunities and a source of competitive advantage. Thus, strategic CSR is motivated both by economic performance and by resolving social problems such as poverty, unemployment and education. Second, strategic CSR is closely linked to community and stakeholder relationship (Rhee et al., 2018, p.5-6).

3.2.3 Institutionalism

Institutional theory asserts that corporations are situated within a range of political, economic, and social institutions (Rhee et al., 2018, 4). Companies are governed by such institutions which can be defined as formal and informal "rules of the game" (Van Zanten & Van Tulder, 2018, p.211). According to Rhee et al. (2018) the variation in the sources creating pressure is why CSR activities varies at the national and organisational level, and may be guided through law, policy, norms and ethics (p.4). This may also be factors creating a variation between private and state-owned businesses.

According to Van Zanten and Van Tulder (2018), institutions affect corporate activities at the macro (international and national), meso (interorganisational), and micro (company) levels. Governments all over the world have enacted policies that require companies to protect environment and societies. This includes national and international laws, international agreements such as the UN and International Labour Organization (ILO) conventions on human rights and labour conditions, and internal guidelines (p.211). Further, Van Zanten and Van Tulder divide these institutions into three:

1. Regulative institutions, or formal rules enforced by the state;
2. Normative institutions, related to professional societies setting roles and expectations for specific groups;
3. Cultural-cognitive institutions describing the accepted beliefs and values shared among individuals of a society (2018, p.211).

3.2.4 Stakeholder Theory

There are CSR frameworks that centralize an Anglo-American perspective such as Matten and Moon (2008), who state that Europe uses implicit forms of CSR which are characterised by companies having social obligations that are mandatory and/or taken for granted. Matten and Moon argue that this results in requirements for corporations to address ethical issues, often based on cultural norms (Jamali & Karam, 2018, p.33). These requirements are made by what is called “stakeholders”.

Stakeholder theory looks at how the internal and external stakeholder influence direct corporations toward social responsibility. One way is through social adaption, meaning that companies meet local stakeholders’ social expectations and avoid public crises and negative consequences of economic adaption. This theoretical approach focuses on how corporations must look beyond their shareholders and look at the needs and goals of other stakeholders, to be successful in the long run (Rhee et al., 2018, p.4-5).

Further, Rhee et al. (2018) divides stakeholders into primary and secondary groups. Primary groups are organisational, meaning that stakeholders are employees, consumers and shareholders. The primary group has a direct relationship toward affecting the bottom line and realising the organisational mission in terms of goods and services. In the case of GPFG the primary group would be Norges Bank, NBIM and the Norwegian Government. Secondary groups are social stakeholders, involving communities and NGOs, governments and media. They support the mission by providing approval of the organisation's activities (Rhee et al., 2018, p.7). This would include the Norwegian people.

Reinhardt et al. (2008) introduces different variations of shareholder primacy. First, in a private property system, a corporate executive is an employee of the business that has direct responsibility to his employers. Another version of the argument is the "nexus of contracts" which views the corporation as a nexus of legal contracts between suppliers who agree to cooperate in order to generate monetary returns. Since shareholders have no contractual guarantee of a fixed payment from the company's activities, any profits that are diverted towards activities such as "the social good" come "directly out of their pockets". CSR is therefore close to stealing in this argument. A third version of the argument is the "progressive view" that the corporation is organized for the benefit of society at large, and corporate directors have responsibility to a wide variety of stakeholders. In this view, sacrificing profits is in the public interest and entirely legal (Reinhardt et al., 2008, p.220-221).

Finally, Renneboog et al. (2008) argue that CSR is financially beneficial. The authors present what they regard as the main arguments in favour of CSR; CSR is consistent with shareholder value-maximization. The argument states that by anticipating and minimising possible conflicts between corporations and society, CSR may reduce the costs of conflicts (Renneboog et al., 2008, p.1731). In other words, CSR is financially beneficial in the long term. The GPFG is a long-term actor. However, it raises the question of why there is a limit to what is ethical or not.

3.1.5 CSR in Nordic Countries

Midttun et al. (2012) looks at CSR in Nordic welfare states where public policies involve reconciling two widely different traditions. The Nordic welfare state tradition emphasises universal rights and duties, extensive state engagement in the economy, and negotiated agreements to regulate labour relationships. In contrast, the CSR tradition has originated in an Anglo-American context emphasising corporate discretion, voluntarism, and market-based policy solutions. CSR tradition assumes that open societies with competitive markets and free media can drive businesses to adopt strong, voluntary self-regulation to enhance social and environmental performance (Midttun et al., 2012, p.467-469).

Midttun et al. (2012) use Keane's argument, which claims that civil society organisations and the public voice their concerns in the media and thereby discipline both industry and society. He argues that the evolution of media society has drastically reduced the mobilisation and organisation costs, facilitating, in return, civic power. Therefore, CSR builds on a state-market-civil society model in which businesses and civil society are the main actors in securing decent social and environmental conditions (Midttun et al., 2012, p.470). I will return to how media might affect business behaviour in Part Two. Midttun et al. (2012) argue that the level of CSR engagement in the Norwegian government has been stable despite changes in government. As the CSR agenda developed, the government launched new policies, the most notable being the ethical investment guidelines for GPFG. The Norwegian government is an important financial contributor and strong supporter of international initiatives. The authors conclude that Norwegian CSR policies being closely aligned with the general Norwegian humanitarian foreign policy ambitions (p.477-478). International researchers use GPFG as the perfect example of CSR in literature. However, in Norway GPFG is often criticised as not being good enough.

3.3 Socially Responsible Investment (SRI)

SRI is a broad field which connects and disconnects with CSR (Kurtz, 2008, p.250). Since the GPFG is an investment fund, perspectives on SRI are also highly relevant. SRI is a more concrete way of setting goals than CSR. It provides indexes, rules or case-specific actions that are viewed as socially responsible investments. As with CSR, SRI has several definitions and the literature is diverse because of culture, norms, values and ideology that varies between countries and regions (Sievanen & Scholtens, 2013, p.607).

3.3.1 Development and definitions

Since the 1960s there has been many social campaigns such as anti-war and anti-racist movements that made investors aware of the social consequences of their investments. At the end of the 1980s, investors' awareness of the negative consequences industrial development had on the environment increased, and since the 1990s SRI has become increasingly popular all over the world (Renneboog et al., 2008, p.1725-1726).

Kurtz (2008) define SRI as something *"all social investors include in their investment decision process, over considerations of financial risk and return, some combination of ethical, religious, social and environmental concerns"* (p.258). Yan and Almadoz (2019) define it as a hybrid of environmental and social goals, while Renneboog et al. (2008) define SRI as an investment process that integrates social, environmental and ethical considerations into their decision making (p.1723), which resembles CSR in many ways. In this thesis, I use responsible investment when addressing the different names that describe investment that takes non-financial criteria into account.

In responsible investment, investors try to account for environmental, social, governance (ESG) and ethical issues in the investment process, which I will come back to. Thus, it encompasses different stakeholder interests (Sievänen et al., 2013, p.138) like CSR does.

3.3.2 Theoretical Perspectives

The literature presents different views on SRI and is characterised by the debate of the true goal of an investor. SRI can be traced far back in history, all the way to the philosopher Adam Smith who claims that both economics and ethics are important in business (Kurtz, 2008, p.258). According to classical economic theories, there is no conflict between the two goals of maximising shareholder value or social value. Classical economic theory states that when all firms maximise their profits, resource allocation is pareto-optimal and social welfare is maximised. However, modern economic theory is sceptical of this and adds that profit maximising behaviour does not necessarily mean maximising of social welfare (Renneboog et al., 2008, p.1730). The second theory is probably more accurate because if it was pareto-optimal, there would not be an issue of whether one should be ethical or not, and there would be no ground for writing this thesis.

Hoepner and Schopohl (2016) address the question of whether a conflict truly exist between the ethical and financial expectations faced by asset owners – can the funds incorporate the ethical views of their beneficiaries without sacrificing financial returns. They conclude that excluded companies neither significantly under- nor outperform relative to the funds' performance benchmarks, and that by using specific forms of sector-based and norm-based screen, asset owners can meet both their beneficiaries' ethical and financial objectives (p.666).

3.3.3.1 Environmental, Social and Government (ESG) information

As mentioned, most SRI literature focus on investment strategies. In order to make decisions on where to invest, ESG information is popular in SRI and is used in the management of GPFG.

In the past 25 years, the world has seen exponential growth in the number of companies that measure and report environmental data (e.g. carbon emissions, water consumption, waste generation), social data (e.g. product information, customer-related information), and governance data (e.g. anticorruption programs, board diversity) – that is, ESG data (Amel-Zadeh & Serafeim, 2018, p.87). Whereas 20 companies disclosed ESG data in the early 1990s, the number of companies issuing sustainability or integrated reports had increased to nearly 9,000 by 2016. Investors' interest in ESG data also grew rapidly (Amel-Zadeh & Serafeim, 2018, p.87).

Recent studies documented that ESG information is associated with numerous economically meaningful effects. Specifically, ESG disclosure is associated with lower capital constraints (Cheng et al., 2014, p.1), lower cost of capital and stock price movements around the mandatory ESG disclosure regulations as well as predicting companies' future financial performance (Amel-Zadeh & Serafeim, 2018, p.87; Grewal et al., 2017, p.1).

Amel-Zadeh & Serafeim (2018) uses survey data from mainstream investment organisations to provide insight to why and how investors use ESG information. They find that relevance to investment performance is the most frequent motivation, followed by client demand, product strategy, and ethical considerations (p.87). An important impediment to the use of ESG information is the lack of reporting standards. The evidence in Amel-Zadeh and Serafeim's sample suggests that the use of ESG information is driven primarily by financial rather than ethical motives, but motives vary considerably by geographical area. Evidence suggests that ethical motives seem to play a larger role in Europe than in for instance the US. The European respondents believe more strongly that engagement with companies can bring changes in the corporate sector that address ESG issues (2018, p.92). Respondents reported that ESG information is important to identify investment risks (Amel-Zadeh & Serafeim, 2018, p.101).

According to Ghahramani (2013), portfolio investors such as GPFG can be active or passive. Investors may or may not pressure companies in which they hold shares to change practices. Activist shareholders use their power to influence the processes or the outcomes of a particular company, or across several companies by symbolically targeting one or more firms. The motivation behind activism is either financial, where shareholders put pressure on management to provide monetary results, or social where shareholders are motivated by ethical, human rights, or environmental issues. Investors can submit proposals during shareholder meetings; write letters to fellow shareholders, firm management or to the media; or cast votes that oppose the position of management in order to affect the firm's direction and trigger modifications in corporate governance. These actions are considered "voice activism". Another type of activism is "exit" where disgruntled investors punish the firm by selling their shares (Ghahramani, 2013, p.1075). I will elaborate these in the following section.

3.3.3.2 Exit, Voice and Observation

As mentioned, ESG information is used to make decisions on what strategy to use. These strategies may be divided into Hirschman's (1970) three categories; exit, voice and loyalty. This is a well-known theory concerning how investors may react toward companies conducting unethical behaviour and are also strategies used by Norges Bank.

Exit is a classical economic response to dissatisfaction with a business behaviour. Companies who make "distasteful" investments will lose shareholders. Investment funds leave immoral companies by selling their stocks which is a way for investors to have portfolios consistent with their moral beliefs, but not to change corporate behaviour (Kurtz, 2008, p.258). The most used SRI-strategy, that may be placed under exit, is *negative screening*, which is a systematic method where the investors exclude investments according to decision rules established beforehand (Kurtz, 2008, p.251), such as codes of conduct. Negative screening often excludes companies involved in "unethical business" such as tobacco, alcohol, gambling or weapons. These exclusions are often based on ESG-information or ethical criteria (Renneboog et al., 2008, p.1723). Hoepner and Schopohl (2016) systematically analyse the performance effect of exclusionary screening. They argue that GPFG have a strong signalling effect on other global asset owners with many investors following their exclusion decisions. They add that such domino effects of exclusion decisions are hardly observed for SRI mutual funds (p.666-667). Screening can also be used to do *positive screening.* Positive screening includes companies with notably positive records in their portfolios (Kurtz, 2008, p.251).

For investors who wish to be more active, exit is not sufficient. According to Hirschman, exit abandons the possibility to change things for the better, and *voice* is therefore a better option (Kurtz, 2008, p.258). "Voice" is the practice where the investors express their dissatisfaction directly to management (Hirschman, 1970, p.4). Kurtz (2008) compares it to customers of a company complaining if a product is inferior. Voice may also be referred to as shareholder activism which aims to change corporate behaviour via proxy resolutions and negotiation with management (p.251-258). As mentioned in Chapter two, shareholder activism and voice are important strategies with NBIM, such as dialogue.

Voice and shareholder activism are also commonly used when deciding whether to exclude a company or not. Kurtz (2008) refers to this as relative weighting. Here, companies are not automatically excluded, but rather assessed of both strengths and weaknesses. This information is included in the portfolio and is commonly practiced in Europe (p.264). Such assessment is done by the Council on Ethics, but NBIM may also use voice to try and change the weaknesses that may lead to exclusion.

This brings us to the challenge of when to sell and when to stay. In Hirschman's theoretical approach, the choice between exit or voice depends on loyalty. According to Hirschman, loyalty is a rational assessment of the likelihood that the organization will do the right thing over time (Hirschman, 1970, p.5; Kurtz, 2008, p.258-259).

Ghahramani (2013) posits that there are three paradigms under which sovereigns, national and subnational political units – engage in SRI through portfolio investing: 1) Ethics based Legislative Exclusion, 2) Nation-centric Legislative Exclusion, and 3) Extra-legislative Activism (p.1075). The ethics-based exclusion model largely relies on exit activism in that a government-sponsored fund, through a process mandated by law divests from certain companies and excludes them from its investment universe based on unethical or illegal corporate conduct. According to Ghahramani (2013) this model is best demonstrated by GPFG. He points to GPFG as a "prime example" that has publicly engaged in both voice and exit social activism (p.1076). Under the nation-centric model, the legislature mandates that the public pension funds under its jurisdiction refrain from investing in companies that do business with specific countries (Ghahramani, 2013, p.1079). Under extra-legislative activism, government funds pursue SRI objectives beyond, or in the absence of legislative mandates. Ghahramani (2013) puts ESG approach under this model as well as soft laws such as the UN Global Compact (p.1080-1081).

In my opinion, the line between CSR and SRI is blurry, and I will therefore look at both as part of responsible investment during this thesis. The theoretical perspective of SRI is also closely linked to *universal ownership*, which is very relevant for GPFG as a global investor, owning shares all over the world.

3.4 Universal Ownership

As mentioned in chapter two, NBIM view themselves as universal owners. "Universal ownership" was first introduced by Monks (1999). He talked about the rise of "new owners", meaning large institutional investors such as the Norwegian oil fund. He uses five characteristics to describe the "new owners": they are global, universal, long-term, legal, and humane. Gjessing and Syse (2007) states that universal ownership addresses the economics of well-diversified portfolios, drawing on well-understood lessons from welfare economics (p.427).

Literature also discuss challenges meeting universal owners. Kurtz (2008) explains that it might be impossible for universal investors to conduct exit-strategy, as mentioned in part 3.3.3. If they operate under legal requirements stating that they fully diversify their assets, they must own a wide range of companies, even if they are engaged in behaviour that might be harmful to others. Thereby, voice is the only strategy that allows the organisations to address unethical behaviour by companies in their portfolios (Kurtz, 2008, p.260) as through dialogue and voting.

Gjessing and Syse (2007) also discuss possibilities and challenges with Universal Ownership. They state that Universal ownership is about absolute returns. They argue that NBIM is primarily mandated to produce relative returns, *"the return an asset achieves over a period of time compare to a benchmark"* (Investopedia, n.d). But special features of active universal ownership add the target of absolute return (social, environmental and financial returns) (Gjessing & Syse, 2007, p.427).

Hawley and Williams (2007) also discuss possibilities and challenges with universal ownership. They argue that the duty of loyalty and care creates a challenge for their financial obligations. However, arguments for the new structure of investment spread over different sectors and geographical areas, find that investors benefit financially from improving the economy at large (p.415, 416), in other words producing absolute returns. Hawley and Williams (2007) argue that many investors lack the mindset of a universal owner, except for GPFG. According to them, GPFG is universal in that it allocates its values across practically all sectors and in all countries where it believes it can get the best returns. The mandate of GPFG provides a long-term perspective and the framework and structure is a legal one as it is created by parliament and regulated by laws. Finally, it is humane in that the *"beneficial owners comprise a sustainable portion of the population"*, as Monks describes institutional owners. This is because GPFG diversifies their portfolio and their performance depends on the performance of the economy at large (Hawley & Williams, 2007, p.416; Monks, 1999).

Hawley and Williams (2007) points to another challenge. They argue that the concept of the universal owners comes very close to policy activity which might disturb the decision-making process. If political considerations are introduced to the investment process, how does one avoid that it is dominating the process (Kurtz, 2008, p.260)? Hirschman (1970) argues that the politization is inevitable when it comes to institutional relationships with corporations (p.32-39). Kurtz further points to how universal owners have "quasi-political responsibilities" such as climate change. The owner is close enough to politics that it must take part in some "political activity" but so absent that investors can take several different actions in response to the problem (Kurtz, 2008, p.260). I will come back to the issue of political considerations in Part Tree.

3.4.1 Sustainability and Integrational Justice

A challenge for pension funds as universal owners is the complexity brought by the terms "sustainable" and "sustainability". The terms are both used to explain why companies must invest responsibly, and that they need profit to face problems such as ageing populations in many Western countries. Wood and Urwin (2010) argue that sustainability can add much to pension fund investment. It becomes a question of the fund's responsibility (p.4-5). This is highly linked to what Gosseries (2008) calls intergenerational justice, which he defines as justice that *"meets the needs of the present without compromising the ability of future generations to meet their own needs"* (p.62). This is the same definition as the Brundtland commission used for sustainable development (UN, 1987, p.28) which can be translated into how the interest of one generation cannot be at the expense of another generation. Meyer (2017) gives a thorough overview of the concept of integrational justice, especially the philosophical field of research. One view is that future generations have the same rights as living people. In Meyer's book it is argued that thinking about future generations can be understood as distributive justice so that people living now cannot use all resources for their own sake. This means that pension funds, whose goal is to secure future generations, meet the challenge of balancing their goal with intergenerational justice.

Part One Summary

In part one I looked at CSR, SRI and Universal Ownership. Drawing from the background on GPFG, much of the literature is highly relevant and leaves us with certain expectations. Garriga and Melé (2004) show that the four categories of CSR are interlinked in the GPFG as they have a goal of creating revenue, a social responsibility, meet the expectations of the Norwegian citizens, and an institutional framework characterised by international law and ethical norms. Rhee et al.'s (2018) classifications of responsive and strategic CSR are also relevant. They leave us expecting that the GPFG should conduct CSR both in order to follow the ethical norms and expectations reflected in Carroll's (2004) legal institutions, codes and regulatory, and commitment to long-term investments. As Van Zanten & Van Tulder (2018) argues that norms and values constantly change and the GPFG must pay attention to ethical and sustainability issues in order to maintain the overlapping consensus. Reinhardt et al. (2008) introduces different variations of shareholder primacy. First, in a private property system, a corporate executive is an employee of the business and has direct responsibility to his employers. This would mean that NBIM has a responsibility to the Norwegian state and the Norwegian people. Therefore, I expect *NBIM to invest responsibly by conducting responsive and strategic CSR that meets the expectations of institutions and stakeholders.*

This is also highly reflected in literature on SRI. Under SRI, GPFG is expected to address ESG and ethical issues in the investment process, driven by ethical motives reflecting the expectation of stakeholders (Amel-Zadeh and Serafeims, 2018). As NBIM use ESG-information and conduct active ownership such as dialogue and negative screening, one can also include Hrischner's Exit, Voice and Loyalty. According to Ghahramani (2013) the ethics-based exclusion model is best demonstrated by GPFG. He points to them as a "prime example" that has publicly engaged in both voice and exit social activism. Thus, I expect *NBIM uses SRI strategies such as screening and "voice" to influence arms producing companies.*

As universal owners, GPFG also look to increase economy at large. Therefore, literature on universal ownership and intergenerational justice provides a relevant framework for this thesis. Gjessing and Syse (2007) states that universal ownership addresses the economics of well-diversified portfolios, drawing on well-understood lessons from welfare economics. From literature we can expect GPFG as universal owners to be about absolute returns, not only relative returns. Therefore, we can also expect the GPFG to conduct sustainable investments ensuring intergenerational justice (Gossieries, 2008). I expect that *NBIM, as universal owners, practice absolute returns in order to meet the need of future generations without compromising the present generation.*

PART TWO: EXTERNAL PRESSURE & CODES OF CONDUCT

Even though CSR, SRI and Universal Ownership gives a good indicator as to why companies act responsibly, these are not adequate to explain how the GPFG maintain overlapping consensus or the forces that drive ethical investment. The goals of the GPFG as a SWF are similar to a private company. Yet, it is also an organisation, defined as a social system that is constructed to solve special tasks and realise specific goals (Jacobsen & Thorsvik, 2007). Therefore, I will briefly look at organisational theory in order to cover both the corporate and organisational side to the GPFG. Organisational theory will show there are many external factors that might affect the GPFG's investments and we must therefore include external influence on corporate decision making and behaviour.

3.5 Organisational Theory

Major shareholders, such as the GPFG, are more visible to outsiders than smaller ones and might therefore become the target of social activists and lobbyists. CSR strategies for instance, might benefit a company by improving their reputation as responsible managers. The implementation may be explained by external factors such as the societies' influence on investments and provide an image of why organisations and businesses choose to invest ethically, even if there is a trade-off.

3.5.1 A Cultural and Myth Perspective

Organisational theory has traditionally focused on private organisations in general and on private companies in particular. It has also been a much larger part of business schools rather than political science. This has given ground to criticism of organisational research neglecting the importance of context, political administrative organisations and the connection between organisational design and the content of public policy.

Under organisational theory, Christensen et al. (2009) presents the "myth perspective" which seeks to explain how external surroundings, expectations, norms and ideas affect how the organisation is run. The essence in this perspective is that organisations are not only run by institutional, rational goals, or internal culture, they are also shaped by the expectations from the society the organisation operates within. These expectations are established through so-called "myths" or "trends" rationalised as truths about how an organisation should be shaped and act to appear legitimate. These are not built on empirical research or rational choice

(Christensen et al., 2009, p.75-91). The past few years, concern for climate change and the environment for example has been a big trend among the Norwegian people.

Abdelzaher et al. (2019) also propose an explanation to what drives voluntary initiatives such as the UN Global Compact and OECD principles. They draw inspiration from the neo-institutional perspectives which suggest that organisational practices are not necessarily a result of rational choice, but a result of external forces. They look at CSR to identify the external forces: a) shareholder and labour legal rights, b) national cultural differences associated with individualism, and c) the country's social network position in the global economic system reflected by international trade patters (p.12-13).

3.5.2 Spotlight Theory

There may be several factors as to why the GPFG might implement CSR, SRI and ethical investment. The normatively based adoptions are more specifically explained through an example that I find relevant for this paper: Spar's (1988) "spotlight effect". The spotlight effect builds on the idea of when corporations "go abroad", they take more than capital with them. They also take their brand names, reputations and international images. Companies today operate in an era of higher public expectation, which often involves consumer pressure to improve environmental and human rights performances. The spotlight effect occurs when firms realise that investments in tobacco, for instance, leads to bad publicity and has negative financial consequences for the business (Spar, 1988, p.8-9).

In light of the spotlight effect, scholars have begun to examine the impact NGOs public shaming of for example human rights violations has on the behaviour of state actors, which can partly be transferred to corporate investment (Barry et al., 2013, p.532). Barry et al. (2013) criticises how literature focuses on NGOs' relationships to other states rather than on non-state actors (p.533).

3.6 International agreement and Codes of Conduct

One way to respond to the spotlight effect is through implementing voluntary international agreements and codes of conduct (CoC). Stakeholders, consumers, media and NGOs create pressure on companies to show that they are socially responsible and that they are taking actions to prevent for example human rights violations and environmental pollution. The most common way to do this is through CoC (Kolk & Van Tulder, 2002, p.260). CoC may be viewed as rule-setting behaviour and establishing institutions. These are usually prevailed by national law, but according to Kolk and Van Tulder (2005) they also try to fill some of the gaps in international regulation (p.1-2). The gap in international regulatory exists because international responsibility are guidelines and recommendations to enhance corporate responsibility, not laws. Therefore, Kolk and Van Tulder introduces two forms of codes: First, non-profit actors can use CoC to guide or restrict companies' behaviour, and thereby improving the companies' responsibility. These CoC can be adopted by governments or international organizations at the macro level, or social interest groups, organisations or trade unions at the meso level. Second, companies can draw up codes themselves (micro level) or by business support groups (meso level) (Kolk & Van Tulder, 2005, p.3-4).

These codes of conduct may be used as strategic instruments towards both other businesses and towards the public. When it comes to other actors, CoC might lead to new market opportunities, risk reduction, increased control over business partners or improvement of corporate image. To public relation, CoC can give legitimacy to operate. Further, companies generally resist excessive government laws and regulations that are seen to restrict their freedom of action. If companies can show that they regulate themselves, the chances of preventing the implementation of such excessive laws will increase (Kolk & Van Tulder, 2005, p.4).

Part Two Summary

Summing up part two, theoretical framework suggests that companies are affected by expectations from society rooted in trends. The expectations may be expressed through media or public shaming, reflected in the spotlight theory. Global companies such as GPFG take their names, reputation and images with them and are exposed to higher public expectations to ethical performance when they go abroad. As media coverage and NGOs' public shaming of GPFG's investments in conventional weapons serve as a basis for my thesis, this theory is highly relevant. According to theory, GPFG should try and fill some of the international regulatory through implementing codes of conduct in order to meet national and international expectations and ensure overlapping consensus. This leaves us expecting that:
NBIM's codes of conduct are shaped by public expectations rooted in trends that are expressed through media and public shaming.

PART THREE: OWNERSHIP

Another factor that may affect how a company apply responsible investment is whether they are private or state-owned. The GPFG is a state-owned fund but under the management of Norges Bank they are acting as a private company.

3.7 Private vs. State-owned Companies

According to Christensen et al. (2020) private and public organisations are fundamentally different. First, they point to how public interests differ from private interests because the public sector must consider a broader set of norms and values. Second, leaders of public organisations are accountable to citizens and voters rather than to shareholders as private organisations are. Third, because they are accountable to citizens, public organisations require a greater emphasis on transparency, equal treatment, impartiality, rule of law and predictability (Christensen et al. 2020). They dismiss the differences between private and public organisations as stereotypes. New Public Management challenges the view on the differences between private and public organisations. It stresses that public organisations are becoming more like private organisations having important common features subjected to a common set of rules and principles (Christensen et al. 2020).

According to Sievänen et al. (2013), public pension funds appear to be the pioneers and largest promoters of responsible investment and most likely to engage in responsible investment. They mention the GPFG as a role model for other investors worldwide (p.141). Sievänen's arguments are also found in Knutsen, Hveem and Rygh's (2011) theory chapter. Knutsen et al. looks at the difference between private (POEs) and state-owned (SOEs) enterprises. It starts by addressing the agency relationship between owners (voters), politicians and managers. Each actor has different motivation. According to theory, SOEs are more likely to have non-economic goals. They claim that the SWFs in countries such as Norway differ from SOEs and they have therefore chosen to exclude them from their analysis. However, there are still differences that, in my opinion, are relevant to look at as there is a gap in literature. First, politicians may realize that SOE operations of which the electorate disapproves could hurt them in the next election. This may lead politicians to pressure SOEs to allocate investment differently than a POE would. In principle, voters in democratic countries could be concerned about host country political institutions, including rule of law.

However, human rights and democracy likely carry particular normative weight which may lead to pressure on SOE management not to invest in dictatorships that blatantly violate human rights. Voters are the ultimate owners of SOEs in democracies, and voters' moral sensitivity may therefore be particularly strong for the operations of SOEs. Knutsen et al. (2011) use the reactions in Norway to dangerous working conditions, deaths and child labour in operations of Norwegian SOEs in developing countries as an example. Moreover, reputation effects on demand may be stronger for SOEs if consumers expect SOEs to conform to stricter norms of social responsibility. Thus, investment projects in dictatorships and countries violating human rights may hurt SOEs' profits more than POEs' (p.12).

Knutsen et al. (2011) also argue that SOEs originating in countries subjected to OECD market economy rules and standards, such as GPFG, are bound by legal instruments and political agreements to operate as POEs do. Therefore, state ownership might not have a direct influence on the SOE. However, Knutsen et al. (2011) compare POEs and SOEs by looking at possible differences in investments in countries with high level of corruption, weak legal framework and poor property rights protection. Theoretical arguments indicate that SOEs are more "bendable" to invest in such countries. On the other hand, SOEs are expected to invest relatively less than POEs in dictatorships and countries with poor human rights protection. Their empirical analysis suggests that SOEs invest relatively more than POEs in countries with high level of corruption and weak rule of law (Knutsen et al. 2011, p.13).

3.8 Political Interference

According to Christensen et al. (2020), what distinguishes public organisations from private ones is that they are part of the society's political organisations and are major political actors. Public organisations have citizen-elected leadership, are multifunctional and must cope with partially conflicting considerations (Christensen et al. 2020).

Backer (2009) argue that the need to maximize the wealth of shareholders is the largest difference between SWFs and the private sectors. An SWF is a global investment fund that is owned by a government unlike a private international investment fund governed by profit motives (Backer, 2009, p.440-441).

Gilson and Milhaupt (2008) looks at the response to concerns over SWFs. They present the British economist Keynes' criticism to international cash flows of always being political. The increase of assets of SWFs has created ground for Keynes' criticism, being transferred to

SWFs as well. The strongest criticism is that SWFs are a threat to the sovereignty of the nations in whose corporations they invest (Gilson & Milhaupt, 2008, p.1345). More "moderate" critics worry that SWFs will make decisions for political rather than economic reasons.

Truman (2010) is one of SWFs pioneers and has criticised the lack of transparency of SWFs. Truman looks at how critics accuse SWFs of only investing with economic motives. He argues that the aim to increase the financial returns is due to pressure from the general public and political authorities (p.40). Truman refers to surveys which shows concern of SWFs investing with the goal of having political influence. However, he also finds that Norway is an exception, as has been the case in much of the literature on SWFs. Further, Truman argues that SWFs are owned by governments and it is "naive to pretend that they are not". He concludes that SWFs are by nature influenced to some degree by political considerations, although, it depends on context (Truman, 2010, p.41-42).

Part Three Summary

Theory gives a perspective on possible differences between state-owned enterprises such as GPFG and private enterprises such as Storebrand. According to theory one main difference is stakeholders. GPFG's stakeholders are voters, the Norwegian people, while Storebrand's stakeholders are customers. However, Backer argue that GPFG resembles private investors because the main goal is financial revenue. On the other hand, others argue that state-owned enterprises are more likely to have non-financial goals because of pressure from stakeholders on conducting ethical investments. Knutsen et al. (2011) propose a contradicting argument saying that state-owned enterprises are more likely to invest in countries with high levels of corruption.

The theoretical framework suggests that the difference between private and state-owned companies is political interference. Keynes suggest that all international cash flows are political, while Truman (2010) argues that state-owned enterprises are owned by governments and it is "naive to pretend that they are not". Even so, GPFG is brought up several times as an exception and I therefore expect that *GPFG acts no differently than private investors but is more likely to have non-economic goals such as political and ethical objectives.*

3.9 Expectations

Based on the theoretical framework presented above, I expect the following to be true about the GPFG and NBIM as investors:

1. *NBIM invests responsibly by conducting responsive and strategic CSR that meets the expectations of institutions and stakeholders.*

2. *NBIM uses SRI strategies such as screening and "voice" to influence arms producing companies.*

3. *NBIM, as a universal owner, practice absolute returns in order to meet the need of future generations without compromising the present generation.*

4 *NBIM's codes of conduct are shaped by public expectations rooted in trends that are expressed through media and public shaming.*

5. *GPFG acts no differently than private investors but is more likely to have non-economic goals such as political and ethical objectives.*

These expectations are reflected in my data collection. They have guided the interviews and laid ground for document research and secondary literature. During the analysis in chapter 5, the expectations from the theoretical framework will be discussed in relation to the empirical findings. First, chapter 4 will elaborate on the methodological framework used in this thesis.

Chapter 4 – Research Methods

The choice of research methods is important as it shapes the analysis and sets ground for the nature of the thesis. In this chapter I will present the methodological approach used to collect data, analyse, and explore my research question. The chapter will first present the methodological approach, then data collection, and lastly how the data is coded. I have chosen to conduct a qualitative case study by using interviews and document analysis to collect data.

4.1 Qualitative research

When it comes to methods, the first choice that must be made is the choice between the two kinds of methods in social science, quantitative and qualitative research. I considered doing a combination of the two methods by using quantitative data from Sustainalytics which research ESG and Corporate Governance for investors (Sustainalytics, n.d.), including Storebrand and Norges Bank. They could not give me access to the data I needed, and therefore I only use qualitative research methods for this thesis. In my opinion, qualitative research must come before quantitative when researching a new field of study. Even though they have a small number of cases, qualitative research gives enormous amounts of information which can be further researched quantitively (King et al. 1994, p.4). As there has been a limited academic contribution to the GPFG, a descriptive case study is useful.

4.2 Descriptive Case Study

As I had already chosen GPFG's effect on human rights as the main subject for my thesis, a case study was an obvious choice for the paper. In accordance with George and Bennett's (2005) definition of a case study, the thesis is a detailed examination of an aspect of GPFG and to test explanations (p.5). The contribution of this case study is to provide knowledge about GPFG in an exploratory way (Gerring, 2017, p.23).

I chose to conduct a one-case study rather than a comparative study as it can be more useful than cross-case studies when a subject is being encountered in a new way (Gerring, 2007, p.40) After talking to several people who have studied GPFG, I concluded that the most relevant and interesting issue was investment in production of conventional weapons. My research is a new way of reviewing this topic, and I therefore limit my research to one case, conducting a descriptive case study. Descriptive case studies are not organised around a central, overarching causal hypothesis or theory, and the goal is to describe. They may propose causal statements about the world, but these statements are peripheral to the main argument. According to Gerring (2017), some of the best-known case studies are descriptive in this sense (p.56).

Another question was connected to how the GPFG has been featured as one of the most responsible and ethical funds in the world, although Storebrand is considered even more ethical. Though this is not a comparative study, I found it useful to explore what they do differently and how they perceive each other. I therefore included information about two of Norway's largest and most ethical funds, KLP and Storebrand.

4.2.1 Validity & Reliability

Validity and reliability are research principles that ensure quality in social science. Validity means that we really measure what we think we are measuring (King et al. 1994, 25) meaning if our observations reflects the phenomena or variables we want to understand (Brinkmann & Kvale, 2018, p.42). To strengthen the validity I have used triangulation, collecting data mainly from two different kinds of sources; interviews and documents. I have also chosen to include a rather long background chapter as what Bryman (2016) refers to as *thick description.* A thick description can function as a database for making judgements about the possible transferability of findings to other environments (p.84). Being dependent on interview data can also pose as a challenge for the validity of the thesis. The information obtained from interviews can be coloured by individual motives or opinions and might not reflect the reality. Therefore, triangulation is important. Personal opinions can also be valuable as it reflects on attitudes influencing the public perception of the phenomenon. However, it is important to be aware of the informant's bias. To avoid bias and strengthen validity I compare statements with previous research and other informants such as the documents. Case studies also pose a challenge to generalisation. GPFG has often been referred to as the exception and is very often left out of literature and studies. Part of the aim with this thesis is to show that literature and theory also can be applied to GPFG, and why it should not always be written off as an exception. The case-study can reveal aspects that can later be applied to the study of other SWFs or used to study differences between SWFs and other funds.

Reliability says something about the degree to which a study can be replicated by other researchers (Bryman, 2016, p.384). Bryman (2016) states that it is about keeping an *audit* *trail*, meaning that you make sure that records are kept of all phases of the research process so that other researchers may replicate the research (p.384). That is part of the aim of this chapter. I will come back to reliability later in this Chapter. Bryman (2016) also adds that other peers should act as auditors (384). I have had other students read and edit the paper.

4.4 Data Collection Methods

One way to collect data could have been to measure the Norwegian people's opinion about investment in production of conventional weapons. However, NORSTAT conducted a survey on behalf of Save the Children in 2019, asking for people's opinion on GPFG's investments in the conventional arms industry. This survey will serve as a source of social stakeholders' opinion.

4.4.1 Expert Interviews

I have chosen to conduct expert interview as I believe expert interviews gives a better understanding of the issue than a survey would. To properly understand the subject and to reflect all sides to the issue, I chose to interview people who represent the different areas in this paper. All interviewees wished to stay anonymous except Jonas Ådnøy Holmqvist from "Fremtiden i våre hender".

The interviewees were as follows:

- A member of the Council on Ethics (Interview#1)
- An employee from KLP (Interview#2)
- Two employees from the Ministry of Finance (Interview#3)
- An employee from Storebrand (Interview#4)
- Jonas Ådnøy Holmqvist from "Framtiden i våre hender" (Interview#5)
- An employee at NBIM (Interview#6)

As my supervisor had many contacts working on this topic, it was easy to get in touch with informants who could help with recommendations for interview objects. The biggest challenge was to arrange the interview with NBIM as COVID-19 gave them a lot of extra work. However, I was eventually able to conduct an interview with the interviewee.

4.4.2 Semi-structured Interviews

When preparing for the interviews, I decided to use semi-structured interviews. I therefore used an interview guide[7] to structure the interview, leaving room for follow-up questions and allowing the sequence of the questions to vary based on the respondent's answers (Bryman, 2016, p.201). In many of the interviews I had a limited amount of time and, in order to cover all issues of interest, an interview guide was very helpful. I organised the questions in accordance with Rubin and Rubin's (2005) method, meaning I organised my interviews by combining main questions, follow-up questions, and probes. Main questions were worked out in advance, follow-up questions were used for explanation of themes, concepts, or events that the interviewee introduced, while probes helped manage the conversation by keeping it on topic, signalling the desired level of depth, and asking for examples or clarification (Rubin & Rubin, 2005, p.2). Because the interviewees represented different actors, I chose to have different interview guides for all of them except the for the interviewees from KLP and Storebrand. This made it possible to adjust the questions to suit the replies I was looking for. The interviews usually lasted between 45 and 60 minutes.

I chose to conduct all interviews face-to-face as in-person interviews may persuade the respondent to participate and give complete and satisfying answers (Hellevik, 2016, p.105). I was able to do this with the Council on Ethics, the Ministry of Finance and with Storebrand. However, due to COVID-19, I had to conduct the remaining ones by phone. I conducted all interviews in Norwegian, thus facilitating informed answers and reducing the chance of misunderstanding. However, as this thesis is written in English rather than Norwegian, information may be lost in translation. To decrease the chance of misunderstandings, all interviewees reviewed the translated transcripts for clarification of content. Therefore, I do not believe these alleged errors weaken the validity of the interviews.

During the first interview the situation did not allow for recording and by the second interview technical challenges occurred. I therefore had to rely in my notes which weakens the reliability as it becomes more difficult to replicate. However, I took good notes and as the interviewees read the transcript there is no crucial loss of information.

Storebrand, the Ministry of Finance and NBIM asked for the interview questions beforehand. I worried that this would affect the outcome of my interview. On the contrary, this gave me more information as they were able to prepare on the different subjects. I was also careful to

[7] See Appendix 2 for viewing the interview guides.

add some extra questions on my own guide that would serve as in-depth questions if the time allowed it. The preparation, of course, strengthens the challenge of researcher bias. Data gathered in an obtrusive fashion (e.g. interviews or surveys) are subject to researcher bias as mentioned above. I experienced the interviewees to be well-prepared.

4.4.3 Ethics

It is important to have ethical integrity while doing research. Even though none of my interviewees are vulnerable subjects, I treated the interviews as yellow data, meaning data that is not qualified as open data but rather needs a certain protection such as ordinary personal data. Following the ethical guidelines of the Norwegian Centre of Research Data (NSD) I created an information letter[8] about the project which included the purpose of the paper, offering the subjects anonymity and ensuring confidentiality, as well as always asking whether I could record the interview. As mentioned, the interviewees were given the opportunity to read through the transcripts as well as reading the parts of the paper that included their replies during the interview. All interviewees could at any time withdraw their consent to use their interviews in the paper. They were also able to change or add statements until the paper was finished and handed in. All recordings were stored at an external hard drive that only I have access to, and all transcripts were encrypted with a password and saved under anonymous names.

4.4.5 Document analysis

I chose to analyse documents in addition to my interviews in order to strengthen the validity of the thesis, to provide context, track change, verify findings and supplement the interviews (Bowen 2009, p.30). For this thesis I have gathered documents from several different sources. I chose to use book chapters, academic articles, reports and letters from both NGOs, the Government and Norges Bank, and national and international legal documents such as presented in the background chapter. I have primarily analysed 24 primary documents. A list of these documents can be found in Appendix 3. I have analysed the primary and secondary sources by reading them carefully and using NVIVO to mark the parts I found most relevant for my thesis. Because several of the documents and the interviews are in Norwegian, I reference translated quotes "trans".

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[8] See Appendix 1 to view the information letter.

4.4.6 SIPRI List of Arms Companies

In addition to documents and interviews I use Stockholm International Peace Research Intsitute's (SIPRI list over top 100 arms-producing and military service companies in the world (excluding China) from 2017 and 2018. I marked each company NBIM have invested in, and then used Google Finance to look at the value of the shares by the end of each year NBIM have been invested in each company. Finally, I looked at the difference in percentage from 2017 to 2018 and from 2018 to 2019. It is very difficult to conclude whether it is arms that affect the revenue or other production manufactures. It is also too time consuming to look at each company for a master thesis. Further, we cannot draw any lines from investments in China because they, due to lack of information, cannot be listed at SIPRI. Although several Chinese arms-producing companies are large enough to rank among the SIPRI Top 100, it has not been possible to include them because of a lack of comparable and sufficiently accurate data.

4.5. Coding

Finally, in order to analyse the data, I have collected from interviews and documents, I had to apply my expectations/hypotheses to the data. I did this by using the software Nvivo 12 which is an analytical tool for qualitative research. It can be used to organise different types of data, coding and to systematically analyse theory building and conclusions (UiO, n.d.). This made it possible for me to sort the information from both the interviews and the different documents in the same programme. I categorised the data into five codes based on my expectations from theory. These included CSR, SRI influence, universal ownership, spotlight and trends, and political influence. When coding the material, I tried to avoid confirmation bias caused by cherry-picking the date to fit my narrative. I was specifically careful not to draw conclusions based on the information I saw as fitting. To prevent this, I cross-checked the information with different sources to make sure that different accounts overlapped (Mosley, 2013, p.22).

Chapter 5 - Analysis and Discussion

Through analysing the documents and interviews presented in chapter 4, discussed in the light of the theoretical framework presented in chapter 3, I will try to answer my research question: *Does the GPFG's investments in arms producing companies weaken the overlapping consensus between the Fund and Norwegian citizens, the Funds true owners, by violating national law, international agreements and/or ethical codes of conduct?* To analyse this, I am using the five expectations.

From theory and literature, I developed five expectations that will guide me through the analysis and discussion. As I expect that *NBIM invests responsibly by conducting responsive and strategic CSR that meets the expectations of institutions and stakeholders,* the first section will be an empirical discussion of whether the investments violate any of the institutional framework. This will address the first part of my research question. First, I review the national institutional framework: the management mandate and the Norwegian export control system. Second is the international institutional framework, including international humanitarian law, Arms Trade Treaty, the UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises. I am also conducting an empirical discussion of the last part of my research question, the ethical guidelines of the GPFG, under which I also review expectation 4: *NBIM's codes of conduct are shaped by public expectations rooted in trends that are expressed through media and public shaming.* Further, I expect that *NBIM uses SRI strategies such as screening and "voice" to influence arms producing companies.* In this section I will discuss the empirical findings in light of theoretical approaches to SRI strategies and whether they can influence arms companies or not. If SRI works as a tool of influence, it could justify the investments in arms producing companies and thereby ensuring overlapping consensus. Third, I am presenting empirical in relation to intergenerational justice and absolute revenue (social, environmental and financial returns), using theoretical framework to discuss the empirical findings. This is as I am expecting that *NBIM, as a universal owner, practice absolute returns in order to meet the need of future generations without compromising the present generation.* As GPFG has two ethical commitments to several generations, ensuring intergenerational justice is important for both national and international overlapping consensus. Lastly, I expect that *GPFG acts no differently than private investors but is more likely to have non-economic goals such as political and ethical objectives.* I want to investigate this, based on previous literature and theory, as Storebrand is being perceived as the most ethical fund in Norway. I therefore wonder how, why and GPFG can ensure overlapping consensus.

The first two sections in this chapter is a presentation of the empirical findings related to the main elements in my research question: overlapping consensus and conventional weapons. It is important to clarify how they are viewed in the analysis.

5.1 Overlapping Consensus

NBIM stated that the criteria for the exclusion of companies are stable and based on an overlapping consensus on ethical principles among the general public:

> "This principle is intended to ensure that the fund is subject only to restrictions that correspond to norms that are common to the majority of Norwegians and can be expected to be stable over time. Breaches of ethical norms must also be serious for companies to be excluded" (NBIM, 2008).

The Graver-report states that Norway is a pluralistic society and when it comes to ethical perspectives, there is no clear agreement on what Norwegians view as ethical. The absence of a unified justification does not mean that there is no agreement on certain ethical principles. The presence of overlapping consensus is exemplified, for instance, in the way everyone agrees that stealing is wrong, no matter why they believe so (NOU, 2003, p.12). A hallmark with the GPFG is that a large part of those the Fund is managed on behalf of, cannot choose the managers. Therefore, overlapping consensus is important. Graver argues that for the Fund to have broad anchoring among the people, the ethical guidelines cannot build on a certain political direction or theory (NOU, 2003, p.12-13). The overlapping consensus must be based on norms among the Norwegian citizens, not political goals. The Graver-report also discusses who we have an ethical commitment to. The report points to how people broadly agree that all humans are entitled to certain fundamental rights such as human rights, and that they must be respected. Some people also believe we have an ethical commitment to all life and to the environment, which can also be a commitment to future generations. This is another principle of overlapping consensus (NOU, 2003, p.12-13).

Regarding weapons, the Graver-report explains that it is difficult to establish a general, precise and unanimous justification for filtrating certain products. The report adds that the challenge with excluding products based on a specific argumentation is that it can be difficult to find an overlapping consensus on the justification, and therefore pose doubt about whether it reflects the general Norwegian’s values or not. The committee assessed making all military weapons object to negative filtration but concluded that *“there will probably not be ground to anchor such a suggestion in an overlapping consensus in the Norwegian people”* (NOU, 2013, 30, trans). This has perhaps changed. In the survey from Norstat, most respondents did not think it is okay to invest in conventional arms producers (Natvig & Vestvik, 2019, p.5). This indicates a lack of overlapping consensus among social stakeholders. To ensure the overlapping consensus, a new committee was appointed in 2019 to review GPFG’s ethical guidelines. The mandate for the new Committee stated that GPFG must reflect ethical norms supported in Norwegian society, and reflecting international agreements and initiatives ratified or endorsed by Norway: *“This would, according to the [Graver] Commission, ensure that the ethical requirements are based on a solid foundation with an overlapping consensus both nationally and internationally”* (Regjeringen, 2019d). The question is whether the Fund’s guidelines reflect an overlapping consensus?

As Norway is a democracy, Stortinget is elected representation of the Norwegian people, and therefore represents the Fund’s stakeholders. However, criticism from Norwegian society indicates that the investments in arms producing companies result in a weaker overlapping consensus that is not reflected in Stortinget. I am not going to discuss whether Stortinget is representative “enough” to ensure overlapping consensus with the Norwegian people. I will, however, refer to what Rhee (2018) call social stakeholders, involving the Norwegian community, NGOs and media, when discussing if overlapping consensus meets the expectations of stakeholders.

5.2 Conventional Weapons

Conventional weapons are the most common type of armament globally and historically the most commonly used in conflict (UNRCPD, n.d.). The International Peace Bureau defines conventional weapons as weapons that are not weapons of mass destruction [controversial weapons] (IPB). As controversial weapons are all excluded from the GPFG, I will solely focus on conventional weapons. In addition, there are certain conventional weapons (cluster munitions and anti-personnel landmines) that also are excluded from the fund (Etikkrådet, n.d.(a)), which makes them irrelevant for this thesis.

Article 2 of the ATT specifies which categories of conventional arms the treaty shall apply to: a) Battle tanks; b) Armoured combat vehicles; c) Large-calibre artillery systems; (d) Combat aircraft; (e) Attack helicopters; CD Warships; - 4 - (g) Missiles and missile launchers; and (h) Small arms and light weapons (ATT, 2013, p.4-5). Further, weapons are defined in the Foreign Ministry's guidelines for export of defence material. The export control regime applies to products listed in two following the export directive from 2013. List 1 contains defence material related products, specially developed for military use (weapon, ammunition, explosives, torpedoes, etc.), and is sectioned into category A- and B-material. A-material is arms and ammunition or *"other material with strategic capacity that essentially may affect the military power relations in the area"*. B-material is the remaining products. These are products that does not classify as weapons but are made especially for military use such as military vehicles. List 2 contains products that may be used for other multiple agendas (civil products, technology, and services with potentially military use) (Regjeringen, 2015; Natvig & Vestvik, 2019, p.11). I focus on A-material. In the report "The Oil fund out of the arms industry: why and how"[9] published April 2019 by Framtiden i våre hender (FIVH), Norwegian People Aid, Save the Children, and Changemaker[10], it is estimated that the Fund may be invested in between 100 and 150 producers of weapons and weapon systems, and around 250 companies that produce key components to weapons. Several of these companies are contentious such as SAAB, Raytheon and Leonardo. These companies have either been charged in large corruption cases or sold weapon to states Norwegian arms companies cannot sell military equipment to (Natvig & Vestvik, 2019, p.5). As the annual reports from NBIM and the overview of companies GPFG is invested in does not specify what the different companies produce, I used the SIPRI list over top 100 arms-producing and military services companies in the world (excluding China) from 2017 and 2018. Analysing the list, I disclosed

Raytheon
Thales Group
Leonardo S.p.a
UNITED TECHNOLOGIES CORP
Rolls-Royce
Leidos
Booz Allen Hamilton
General Electric
Mitsubishi Heavy Industries
Rheinmetall AG
Babcock International Group PLC
Harris Corporation
CACI INTERNATIONAL INC
Science Applications International Corporatior
SAAB
Kawasaki Heavy Industries
Hanwha Aerospace Co Ltd
Dassault Aviation
ThyssenKrupp
KBR Inc.
Singapore Technologies Engineering Ltd
Fincantieri
Cobham Plc.
LIG Nex1 Co Ltd

Aselsan Elektronik Sanayi ve Ticaret AS
Bharat Electronics Ltd.
TransDigm Group Incorporated
Fujitsu Ltd.
IHI Corporation
Austal
DXC Technology Co
Teledyne Technologies
Curtiss-Wright Corporation
Meggitt plc
Moog Inc Class A
Korea Aerospace Industries Ltd
CAE Inc
Rockwell Automation Inc.
Perspecta Inc.
Oshkosh Corp.
Mantech International Corp.
Melrose Industries PLC.
BWX Ltd.
Ball Corporation
QinteiQ Group Plc.
ViaSat Inc.
Mitsubishi Electric Corp.
Arconic Inc.
NEC Corp.
Amphenol Corp.

Figure 3: *The arms companies GPFG is invested in based on SIPRI's list of top 100 arms companies. Source: SIPRI (2019) & NBIM (2020a).*

[9] Oljefondet ut av våpenindustrien: hvorfor og hvordan
[10] I will only refer to this report as the report from Framtiden i våre hender (FIVH).

that the Fund is invested in 49 of these companies. This gives me reason to analyse whether these investments violate institutional framework of public expectations.

5.3 Institutionalism – The Legal Framework

The GPFG's investments made in conventional arms industry has received criticism from NGOs, media, and politicians, and raised questions about whether the investments are violating legal framework. Exclusion of an entire industry from the fund demands justification, which violation of law provides. To answer whether investments in arms industry weakens the overlapping consensus, I will first investigate if the investments violate national and international law.

I have studied the following documents:

- GPFG Management Mandate
- The Norwegian Export Control System
- Arms Trade Treaty (ATT)
- UN Guiding Principles on Business and Human Rights (OHCHR)
- OECDs Guidelines for Multinational Enterprises (OECD Guidelines)

Institutional theory asserts that corporations are situated within a range of political, economic, and social institutions. According to Rhee et al. (2018) law, policy, norms, and ethics creates pressure on CSR activities (p.4). As mentioned in chapter three, according to Van Zanten and Van Tulder (2018), institutions affect corporate activities at the macro (international and national), meso (interorganisational), and micro (company) levels which can all be used to explain the institutional framework that GPFG has to act in accordance with. This part will focus on the macro-level, and as the part of the problem statement focus on ethical CoC, I will return to the micro level later.

5.3.1. National Legal Framework

In this section I will go through the management mandate which NBIM must follow when managing GPFG. This will contribute to answering the first part of my research question: *Does the GPFG's investments in arms producing companies weaken the overlapping consensus between the Fund and Norwegian citizens, the Funds true owners, by violating national law (...).* Second, as part of the national legal framework, I am looking at the Norwegian export control system. This is not a law that GPFG must follow, but arguments suggest that it should be part of the legal framework for GPFG.

5.3.1.1 GPFG Management Mandate

First, The Norwegian Government expect all Norwegian businesses to exercise corporate social responsibility,

> "whether they are state-owned or privately owned, and whether their activities are in Norway or abroad (…) Enterprises in which the state has an ownership share are expected to systematically practise the CSR and be leaders in this area in their respective fields" (Regjeringen, 2016).

Thus, GPFG is expected to practice CSR, and we can therefore say that it is motivated by regulative institutions (Rhee et al., 2018). CSR-investments must be conducted within the frames of GPFG's management mandate.

Chapter 1 of the mandate looks at general provisions. This chapter includes the goal for the management and states: *"The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolios currency basket"* (Lovdata, 2010, §1-2, trans). This is a clear financial goal which has given ground to many arguments in the debate about investment in conventional arms. GPFG shall reach this goal by spreading risk, meaning that it is investing in different sectors and in several companies. Therefore, it can be argued that the choice of investing in conventional arms industry is made in an effort to reach that goal and contributes to relative return (financial return). This reflects on the theoretical argument of the GPFG solely producing financial return (Gjessing & Syse, 2007, p.427). If we move a little further on the management mandate, to section 1-3, it states that:

> "responsible management shall form an integral part of the management of the investment portfolio, cf. Chapter 4. A good long-term return is considered to depend on sustainable economic, environmental and social development, as well as on well-functioning, legitimate and efficient markets" (Regjeringen, 2019b; Lovdata, 2010, §4-1).

This indicates a strategy of absolute return that will improve the economy at large (Gossieries, 2008) and that GPFG conduct strategic CSR where it can achieve economic performance by resolving social problems (Rhee et al., 2018, p.6). As NBIM practice CSR and invest in accordance with the management mandate, it supports my expectation of NBIM *investing responsibly by conducting responsive and strategic CSR and SRI that meets the expectations of institutions (and stakeholders).*

However, in the financial argument from the FIVH report, the authors argue that investments in international arms industry is not financially profitable because it contributes to enormous destructions. This creates a need for Norway to give huge finance to humanitarian aid and reconstruction. They also argue that arms contribute to reduced purchasing power and thereby reduce the markets for other companies the Fund is invested in (Natvig & Vestvik, 2019, p.5-6). If the argument presented by FIVH is correct, the GPFG acts against the main goal of creating the highest possible return and sustainable investments, and therefore against the management mandate. This would weaken the overlapping consensus.

There is no evidence supporting the FIVH report's argument is correct. When asking the NBIM interviewee to what degree they find it financially profitable to be invested in companies producing conventional arms, the interviewee replied that NBIM invests according to the mandate which aims at diversifying the investments globally. There is no sectoral restriction approach unless certain products are part of the exclusion criteria. The interviewee adds that the fund is managed according to the benchmark index given by the Ministry of Finance, with limited degrees of freedom for deviations from that index (Interview#6 trans). To examine whether investments in the arms industry are profitable, I used Google Finance to get the value of the shares by the end of each year GPFG has been invested in each company on the SIPRI-list (SIPRI, n.d.(b)). I found that most of the companies had a negative change from 2017 to 2018.

5	Selskap	2010	2011	2012	2013	2014	2015	2016	2017	2018	Prosentvis endring	2019	Prosentvis endring fra 201
6	Raytheon	45,58	48,37	56,7	90,85	107,62	124,53	146,3	187,85	152,92	-18,59 %	220,96	44,49 %
7	Thales Group	26,19	24,4	26,54	43,87	45,14	69,1	92,13	89,88	100,8	12,15 %	93	-7,74 %
8	Leonardo S.p.a	8,51	2,86	4,35	5,44	7,92	12,9	13,34	9,92	7,68	-22,58 %	10,54	37,24 %
9	UNITED TECHNOLOGIES CORP	78,72	73,09	82,54	110,66	112,15	96,07	109,62	127,57	105,34	-17,43 %	150,28	42,66 %
10	Rolls-Royce	630	746,5	870	1271	808,5	595	668	847	817,6	-3,47 %	701,4	-14,21 %
11	Leidos				46,51	44,32	56,26	51,14	64,57	52,4	-18,85 %	98,23	87,46 %
12	Booz Allen Hamilton	19,43	17,25	13,61	18,92	27,09	30,85	36,07	38,13	45	18,02 %	70,93	57,62 %
13	General Electric	18,04	17,01	21,46	27,83	25,62	31,15	31,6	17,45	7,51	-56,96 %	11,18	48,87 %
14	Mitsubishi Heavy Industries	3050	3280	3940	6510	6820	5333	5326	4210	3956	-6,03 %	4248	7,38 %
15	Rheinmetall AG	60,17	34,24	36,52	44,75	35,63	61,48	63,9	105,85	77,16	-27,10 %	103,7	34,40 %
16	Babcock International Group PLC	553,5	700,5	975	1334	1070	1016	953	705,5	496,7	-29,60 %	628,8	26,60 %
17	Harris Corporation	Missing from Google finance							141,65	131,18	-7,39 %		
18	CACI INTERNATIONAL INC	52,6	55,92	53,63	72,19	86,04	92,78	124,3	132,35	143,94	8,76 %	250,78	74,23 %
19	Science Applications International Corporation				32,2	51,17	45,78	84,8	76,57	62,64	-18,19 %	88,27	40,92 %
20	SAAB	113,57	131,49	124,75	160,29	188,55	240,81	314,4	368,42	307,8	-16,45 %	318,7	3,54 %
21	Kawasaki Heavy Industries	2730	1920	2110	4360	5530	4520	3670	3955	2352	-40,53 %	2408	2,38 %
22	Hanwha Aerospace Co Ltd								35550	32500	-8,58 %	34900	7,38 %
23	Dassault Aviation						1146,5	1061,6	1297,9	1189	-8,39 %	1179	-0,84 %
24	ThyssenKrupp	31,68	17,73	18,01	17,42	21,18	18,34	22,64	24,22	14,98	-38,15 %	12,06	-19,49 %
25	KBR Inc.	30,47	27,87	29,57	30,68	16,81	16,92	16,69	19,83	14,95	-24,61 %	30,5	104,01 %
26	Singapore Technologies Engineering Ltd							3,23	3,26	3,5	7,36 %	3,95	12,86 %
27	Fincantieri						0,4	0,47	1,25	0,92	-26,40 %	0,91	-1,09 %
28	Cobham Plc.	145,67	121,26	159,2	196,28	229,64	202,72	117,18	126,3	98,8	-21,77 %	165,2	67,21 %
29	LIG Nex1 Co Ltd							80500	59800	36950	-38,21 %	31150	-15,70 %

Figure 4: A selection of some of the companies listed according to those GPFG are invested in on SIPRIs list. Numbers are retrieved from Google Finance. Red indicates a negative development, while green is a positive development.

However, almost all the numbers were positive from 2018 to 2019 which indicates that it is financially profitable to be invested in these companies, and that the investments therefore are in accordance with the management mandate. It is also important to remember that the GPFG is a long-term investor. This is an argument for relative return, meaning financial return, although I cannot say with certainty that destructions during war is not compromising this goal, thereby weakening the overlapping consensus. Yet, the investments are in accordance with the financial goal of the management mandate. Hence, overlapping consensus is not weakened by violations of national law.

5.3.1.2 The Norwegian Export Control Systems

The report from FIVH points to how Norwegian arms producers have to follow an export control regime that is made to ensure that Norwegian arms do not get in the hands of governments, guerrilla groups or individuals who operate in violation of Norwegian politics (Natvig & Vestvik, 2019, p.18). Such a control regime does not exist for GPFG. Therefore, one might end up in a situation where GPFG can own shares in a company selling to a state which Norwegian arms producers cannot sell to because of the export control. While there are 17 countries Norwegian companies are forbidden to export weapons and military material to, GPFG only has restrictions for two of those countries; Syria and North-Korea. As an example, Norwegian arms producers cannot sell arms to Saudi-Arabia. Still, GPFG is invested in the American arms company, Raytheon, which has a cooperation agreement with Saudi Arabia Military Industries (SAMI) about local production of precision ammunition, air-and rocket defence and cyber defence. Because SAMI is owned by the Saudi Arabia's governmental Public Investment Fund, only the Saudi-Arabic government can decide how and where these arms are used (Natvig & Vestvik, 2019, p.18). As mentioned in chapter two, bombs produced by Raytehon have been traced to several bombings of civilians in the Yemen war in 2014 and 2015 (Foss, 2019).

When asking the Ministry of Finance about why the GPFG does not have the same rules as Norwegian arms companies such as Kongsberg Gruppen, the interviewees replied that the Fund shall not have several goals.

> "It is an ethical commitment to get the highest possible return (…) Kongsberg Gruppen has a much more direct responsibility and influence. It is very important to be aware of the difference between companies, how they operate contra the type of investor and shareholder that the Fund actually is" (Interview#3, trans).

Thus, it becomes a question of responsibility, and today GPFG does not have a responsibility to follow the Norwegian export control system.

As the export control system does not apply to the GPFG, NBIM are not violating the law by investing in countries on the export control list. Therefore, the investments in arms producing companies are not weakening the overlapping consensus by violating national law. However, arguments suggest that by not having such a system for the Fund, the investors don't have control over which countries weapons are sold to. Thus, NBIM cannot claim that GPFG is not contributing to human rights violations, war or civil harm, which brings us to the international legal framework of the fund.

5.3.3 International Legal Framework

The Norwegian Government base the CSR-policy on these key international standards: "OECD Guidelines for Multinational Enterprises", and the "UN Guiding Principles on Business and Human Rights (UNGP)" (Regjeringen, 2016). Therefore, it is useful to see whether these international principles are upheld by GPFG. As there is one important agreement that covers conventional arms, I will also analyse the "Arms Trade Treaty" (ATT). This section will be a discussion of the empirical findings that contributes to answering the second part of the research question: *Does the GPFG's investments in arms producing companies weaken the overlapping consensus between the Fund and Norwegian citizens, the Funds true owners, by violating (..), international agreements.*

5.3.3.1 International Humanitarian Law

The report from FIVH argues that there, in most wars, are committed violations of human rights such as the bombing of civilians in Yemen. The authors argue that by investing in international arms industry, one invests in arms that may be used in war, and thereby contributes to violations of international humanitarian rights (Natvig & Vestvik, 2019, p.5). The justification for rules limiting types of weapons and methods of warfare is primarily humanitarian. It is a principle in the international humanitarian law that limits the access to use weapons and methods of warfare. SIPRI introduces three principles of International Humanitarian Law (SIPRI, 2020 2:12):

1. Principle of Distinction: Distinction between combatants and civilians;
2. Principle of Proportionality; Prohibits excessive civilian harm;
3. Principle of Precaution: To avoid and minimize civilian harm

All conduct in conflict must weigh the military usefulness against the potential damage and human suffering (NOU, 2003, p.143). According to article 35 of the Geneva Convention, it is forbidden to use weapons, projectiles, material and methods of warfare that leads to superfluous injury and unnecessary suffering. Weapons that cannot separate between military usefulness and potential damage, so-called indiscriminate attacks, are forbidden. Autonomous arms create concern for this. The principle of distinction is reflected in article 48 and 51 in the Geneva conventions additional protocol (NOU, 2003, p.143).

A press release from the UN Group of International and Regional Eminent Experts on Yemen states:

> "a host of possible war crimes committed by various parties to the conflict over the past five years, including through airstrikes, indiscriminate shelling, snipers, landmines, as well as arbitrary killings and detention, torture, sexual and gender-based violence, and the impeding of access to humanitarian aid in the midst of the worst humanitarian crisis in the world" (UN Human Rights Council, 2019).

In the press release they further argue that the governments involved in the conflict have enjoyed a "pervasive lack of accountability" for violations of international humanitarian and human rights law (UN Human Rights Council, 2019). Companies selling arms are not the ones committing the war crimes and GPFG is therefore not violating humanitarian law. Thus, GPFG's investments in arms companies are so far not weakening the overlapping consensus by violating international law. However, if arms are sold to parties in a conflict violating humanitarian law, the company may be regarded as a contributor. It can therefore be argued that GPFG's investments in that company makes these violations possible.

5.3.3.2 The Arms Trade Treaty

Article 1: The object of this Arms Trade Treaty is to:

- Establish the highest possible common international standards for regulating or improving the regulation of the international trade in conventional arms;
- Prevent and eradicate the illicit trade in conventional arms and prevent their diversion;

for the purpose of:

- Contributing to international and regional peace, security and stability;
- Reducing human suffering;
- Promoting cooperation, transparency and responsible action by States Parties in the international trade in conventional arms, thereby building confidence among States Parties

(ATT, 2013, p.4).

Arms Trade Treaty (ATT) is a multilateral treaty that was enforced in 2014. on conventional weapons. The ATT gives a common international standard for arms exports and imports and requires a national control system, including a control list. The treaty also includes important prohibitions and criteria relating to export licenses, to ensure that arms are not used to commit or facilitate violations of international humanitarian law or international human rights, or acts of organised crime, terrorism or gender-based violence in importing states (Regjeringen, 2014; ATT, 2014). This agreement is ratified by Norway.

In a letter from the International Commission of Justice (ICJ) to GPFG's Council on Ethics, they write that according to ATT article 7(3)[11], States are not allowed to export arms if there is a predominant probability that they can be used to commit serious violations of international humanitarian rights. They argue that the demands from ATT to assess risk is different than the ones made by GPFG's Council on Ethics. According to ICJ, while the Council focus on the actual use of weapons, ATT expects that one assesses possible use of the weapons (Aziz et al., 2019). Even though ATT only applies to a country's export of arms and not investments in arms industry, it is *"unfortunate that the Council on Ethics have other standards for investing in arms industry than what follows from ATT"* (Aziz et al., 2019, trans). They further argue that the statement made by the Council of how it is impossible to invest in arms industry without risking arms being used contrary to humanitarian rights, is in stark contrast to the purpose of ATT to make a secure and responsible arms industry (Aziz et al., 2019). As ATT does not apply to businesses, the treaty is not violated by investing in arms production. However, it is perhaps necessary to adjust the guidelines for the GPFG in order to meet Norwegian citizens expectations. I also find the statement made by the Council on Ethics questionable. Why is GPFG invested in an arms industry if it is impossible to avoid risking human rights violations?

Article 3 of the ATT states that *"each State Party shall establish and maintain a national control system to regulate the export of ammunition/munitions fired, launched or delivered by the conventional arms covered under Article 2 (1)"* As explained, Norway has such a system. And even though the GPFG is not required to follow it, NBIM should be able to expect that other countries have resembling control systems. If they do not, companies producing arms in these countries can be excluded because they are violating an international treaty Norway has ratified. Following Article 7 in the ATT each state should have a national control system. States should, in accordance with Article 8[12], assess the potential that the conventional arms or items can contribute or be used to undermine peace, or violate human rights (ATT, 2013, p.7). To assess the potential, GPFG should conduct strategic and not only responsive CSR

[11] "If, after conducting this assessment and considering available mitigating measures, the exporting State Party determines that there is an overriding risk of any of the negative consequences in paragraph 1, the exporting State Party shall not authorize the export" (ATT, 2013, p.7).

[12] Article 8 (1), assess the potential that the conventional arms or items: (a) would contribute to or undermine peace and security; (b) could be used to: (i) commit or facilitate a serious violation of international humanitarian law; (ii) commit or facilitate a serious violation of international human rights law; (iii) commit or facilitate an act constituting an offence under international conventions or protocols relating to terrorism to which the exporting State is a Party; or (iv) commit or facilitate an act constituting an offence under international conventions or protocols relating to transnational organized crime to which the exporting State is a Party (ATT, 2013, 7).

(Rhee et al., 2018). Therefore, it can be argued that the GPFG should not be invested in producers that do not have an export control system, and make sure that the company is not contributing to violations c.f. Article 8 in the ATT.

An export system does not necessarily guarantee that possible human rights violations are assessed. In my interview with Storebrand, the interviewee finds challenges with ATT. The interviewee raises the issue of to what degree ATT really is enforced. *"The export agencies who actually should map out and check before they allow sales to certain countries are not necessarily doing their job"*. The interviewee states that even though they, as investors, can raise demands to the company, it is difficult to question the company if it insists on having done their job (Interview#4, trans).

Based on the empirical discussion of the ATT, I cannot see that the treaty is violated, and therefore not that the overlapping consensus is weakened by violations of international agreements. However, it seems to be a question of interpretation of ATT's expectations to assess *possible* use of the weapons. As with the Norwegian export control system, ATT only applies to countries, and not to GPFG. But GPFG is a state-owned fund and it can be argued that the GPFG's institutional framework should reflect Norwegian law.

5.3.3.3 "The UNGP & "OECDs Guidelines"

The Norwegian Parliament expects all Norwegian companies, private or state-owned, to follow the UN Guiding Principles on Business and Human Rights UNGP) and OECD Guidelines for Multinational Enterprises (OECD Guidelines) (Regjeringen, 2019c). This means Norges Bank is obligated to follow the UNGP and the OECD Guidelines.

The United Nations Guiding Principles for Business and Human Rights are grounded in recognition of:

(a) States' existing obligations to respect, protect and fulfil human rights and fundamental freedoms;
(b) The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights;
(c) The need for rights and obligations to be matched to appropriate and effective remedies when breached.
These Guiding Principles apply to all States and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure (OHCHR, 2011, p.1).

The UNGP and OECD Guidelines are voluntary, but countries ratifying the Guidelines make a binding commitment to implement them. It is specified that state-owned multinational enterprises are subject to the same recommendations as privately-owned enterprises (OECD, 2011, p.22). These principles provide expectations to how companies should conduct a risk assessment of whether their activities can contribute to violation of human rights. It is also these principles that provide the basis for

GPFG's CSR. Even though NBIM does not write explicitly about CSR, the Norwegian Government expect all Norwegian businesses to exercise CSR. NBIM is therefore expected to *"assume responsibility for their impact on people, the environment, and the communities and societies in which they operate"* (Regjeringen, 2016). This is in accordance with strategic CSR which Rhee et al. (2018) claim is motivated both by economic performance and by resolving social problems such as poverty, unemployment and education (p.5-6).

In the letter from ICJ to the Council on Ethics, ICJ argue that *"the threshold for this risk assessment is negligence both in relation to own business and in relation to human rights violations in the supply chain"* (Aziz et al., 2019, trans). They state that although the UNGP does not specify the human rights conventions that are to be followed, it is expected that all human rights are respected. They further claim that *"The standard that is used at UNGP is thus not what the company knew or actively contributed to through its activities, but what they should know about the use of their goods and services"* (Aziz et al., 2019, trans). Therefore, they argue that arms producers must question if there is reason to believe that the weapons sold can be used against civilians in conflict.

In the UNGP and OECD Guidelines for Multinational Enterprises, businesses are required to "(…) *identify, prevent, mitigate and account for how they address their adverse human right impacts, business enterprises should carry out human rights due diligence"* (OHCHR, 2011, p.17) and *"account for how these impacts are addressed"* (OECD, 2011, p.20). As the GPFG is not causing human rights violations by investing in arms companies, it is the part of "contributing to" that creates ground for debate, especially if NBIM is not ensuring that companies conduct due diligence. In September 2019, Amnesty International wrote that arms companies fail to address human rights risks. Amnesty had contacted 22 arms producing companies from eleven countries and asked them to explain how they meet their responsibilities to respect human rights under internationally recognized standards. According to Amnesty, 14 companies did not respond. Those who did were unable to explain how they meet human rights responsibilities and demonstrate "proper due diligence". The companies stated that the responsibility of human rights assessment lies with the state (Amnesty, 2019). Jonas Ådnøy Holmqvist for FIVH explained in the interview why due diligence can be challenging to conduct. He points to how wars today are a-typical, and access to information is limited. This makes it difficult for arms companies to ensure that those possessing the weapons are following the rules (Interview#1). This indicates that NBIM cannot be certain that arms companies do what they can to avoid human rights violations. Nor can they be sure that conducting due diligence is enough, and the chance of GPFG investments *contributing* to human rights violations thereby increases.

Aziz et al. (2019) argue that the due diligence assessment UNGP uses is different from the Council on Ethics when considering exclusion of companies. It is listed in the mandate that UNGP shall be followed. In addition, the GPFG and Norges Bank must follow Norwegian law. The Norwegian Penal Code (§§ 27 and 28[13], cf. §§ 15 and 103) (Lovdata, 2005) commits Norwegian companies to ensure respect for humanitarian rights in both their own business, and in the supply chain (Aziz et al., 2019). Aziz et al. (2019) argue that the Council on Ethics practice of the guidelines is not in accordance with UNGP, therefore not the OECD, or the goal behind ATT. Therefore, they suggest that the practice of what is regarded as "unacceptable risk" in the conduct-based criteria must change (Aziz et al. 2019). Holmqvist agrees and says that *"Norges Bank has a responsibility to asses risk for human rights violations in the companies they invest in".* If human rights due diligence has not been conducted or the investor has reason to believe that it is done poorly *"the investor must do human rights due diligence of the company they are invested in"* (Interview#5, trans).

ATT, UNGP and OECD guidelines are in my opinion not directly violated by investing in arms producing companies. First, ATT is a treaty concerning international trade, not investments, and GPFG is therefore not violating the ATT. Second, UNGP and OECD guidelines does not specify how investors should conduct human rights due diligence towards other companies. However, there are aspects with all of them that raise concern and leave room for interpretation such as where is the limit for "contributing to" and "assess possible violations". This should be clarified, but one can still argue that it is GPFG's responsibility to ensure that their conduct is not contributing to human rights violations. The interviewees from the Ministry of Finance said that:

> "The fund is always a minority shareholder in the companies they own shares in, so it is the companies that are connected to the violations of ethical norms in some way (...) The fund is always one step further away from the violations than the companies" (Interview#3, trans).

However, is this reason enough to write off the responsibility of the Fund? Holmqvist said that there is a difference between judging a company for violating the humanitarian law and excluding a company due to risk for violations of human rights and other international norms. *"It is the State's responsibility to make sure that human rights are upheld, but companies*

[13] Lov om straff (straffeloven). Første del. Alminnelige bestemmelser. Kapittel 4. Foretaksstraff.

have a responsibility to respect and protect human rights and international conventions" (Interview#5, trans). Therefore, based on empirical findings, I find that *NBIM invests responsibly by conducting CSR that reflects on GPFG's institutional framework* is correct when looking at the macro level, and the overlapping consensus is not weakened by violating international agreements, although certain aspects are questionable.

5.4 Ethical Guidelines and Codes of Conduct

Several arguments presented in the former section were grounded in the GPFG's Council on Ethics guidelines, and these are reflected in the Fund's Codes of Conduct (CoC). This brings me to the third part of my research question: *Does the GPFG's investment in arms producing companies weaken the overlapping consensus between the Fund and Norwegian citizens, the Funds true owners, by violating (…) ethical codes of conduct?* In an effort to answer this, I will investigate the ethical guidelines of the GPFG.

Theory views CoC as rule-settings and establishing of institutions. CoC can also fill some of the gaps in international regulatory framework (Kolk & Van Tulder, 2005, p.1-2). Such CoCs are necessary as international regulations primarily exist as guidelines and recommendations, not laws (Kolk & Van Tulder, 2005, p.2). According to Matten and Moon (2008), European companies are characterised by having more social obligations than for example US forms of CSR. They therefore argue that this results in requirements for corporations to address ethical issues that are often based on cultural norms and not only law. These CoCs can be implemented at the micro level and may be used as a strategic instrument, such as the ethical guidelines, to ensure overlapping consensus. It can also reduce risk and give legitimacy towards other companies (Kolk & Van Tulder, 2005, p.4). To reduce risk and ensure overlapping consensus, the Graver-report argues that the GPFG should avoid certain investments that may have negative consequences and seek investments that are positive (NOU, 2003, p.13), which is reflected in GPFG's ethical guidelines. GPFG, Storebrand and KLP have divided the ethical guidelines into "product-based criteria" and "conduct-based criteria" which I now will address.

5.4.1 The Product Based Criteria

GPFG, Storebrand and KLP have listed product-based criteria. All include controversial weapons, tobacco, coal and mining. Storebrand and KLP go a little further in some areas, but the criteria for weapons are the same, although Storebrand offers some funds free for weapons (Etikkrådet; Storebrand, n.d.(d); KLP, 2019). Today, GPFG's ethical guidelines includes weapons under the product-based criteria in two ways:

1) *"The Fund shall not be invested in companies that themselves or through units they control produce weapons that by normal use brakes with basic humanitarian principles"* (Lovdata, 2014, §2). The arms that this criterion concerns are so called "controversial weapons", as was described when they drew the ethical guidelines in 2004 (Nativg & Vestvik, 2019, p.23).

2) *"Sell weapons or military materiel to states that are subject to invest restrictions on governments bonds as described in the management mandate for the GPFG, section 3-1(2)(c)"*. Today, this criterion applies to Syria and North-Korea (Lovdata, 2014, §2). This concerns both controversial and conventional weapon, and military equipment. This criterion has only been used once, in 2008, when a Chinese company was excluded because of sale of arms to Myanmar, which at that time was one of the countries the last criterion applied to (Natvig & Vestvik, 2019, p.23).

Only two conventional weapons are listed as "forbidden" in the product-based criteria, which means that it is impossible to exclude arms companies unless they produce one of the listed types of weapon. The interviewee from KLP states that:

> "The challenge with the weapon criteria is that most people want Norway to have a military and that this is legitimate. (…) It becomes a moral dilemma because we want a military, but we don't want to invest in the companies that will contribute to this military. I think that if the criterion was operationalised differently, it could help strengthen the work and not give ground to such an argument" (Interview#2, trans).

The interviewee further challenges the controversy of conventional weapons:

> "Part of the problem of the view on weapon is that the arms companies we are invested in are those producing conventional weapons. And these weapons are the ones that are active in war and conflict today. But the types of weapons we have excluded, especially nuclear weapons, is the kind that perhaps contributes to maintain peace. There are good arguments for the arms-

> criterion that is today, but the way we end up with investing, it isn't sure it is the right way" (Interview#2, trans).

However, as long as the product-based criteria stays as today, most conventional arms producing companies must be excluded based on the conduct-based criteria. Today's product-based criteria is not violated, and the overlapping consensus is therefore not weakened by violating codes of conduct, this far. However, the arguments presented above does raise concern on whether the present product-based criteria are good enough to ensure overlapping consensus. There is especially concern in relation to the criteria of countries in which other companies can sell arms to. We have seen that several critics are missing a list that corresponds with the export control system and the ATT. It is also questionable that conventional arms are the weapons active in war today, especially as wars have become more atypical.

I expected NBIM to *use SRI strategies such as screening and "voice" to influence arms producing companies.* Using the product-based criteria, influencing arms companies through negative screening seems very difficult. If it were to exclude companies that don't produce weapons that are not listed on the product-based criteria, more countries must be part of the restriction-list. However, GPFG's Council on Ethics also use conduct-based criteria, and VG questions whether investments in arms companies violates the conduct-based criteria when arms are sold to parties in a conflict where human rights are violated (Foss, 2019).

5.4.2 The Conduct-Based Criteria

According to the UNGP, the GPFG as a State-owned fund has an extra responsibility towards ensuring respect for human rights:

> "States individually are the primary duty-bearers under international human rights law, and collectively they are the trustees of the international human rights regime. Where a business enterprise is controlled by the State or where its acts can be attributed otherwise to the State, and abuse of human rights by the business enterprise may entail a violation of the State's own international law obligations. Moreover, the closer a business enterprise is to the State, or the more it relies on statutory authority or taxpayer support, the stronger the State's policy rationale becomes for ensuring that the enterprise respects human rights" (OHCHR, 2011, p.7).

GPFG's Criteria for conduct-based observation and exclusion of companies

Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for:

a) serious or systematic human rights violations such as murder, torture, deprivation of liberty, forced labour and the worst form of child labour;
b) serious violations of the rights of individuals in situations of war or conflict;
c) severe environmental damage;
d) acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions;
e) gross corruption;
f) other particularly serious violations of fundamental ethical norms.

(Lovdata, 2014, §3, Etikkrådet, 2017).

Under GPFG's conduct-based criteria *"companies may be put under observation or excluded if there is an unacceptable risk that the company contributes to or is responsible for serious or systematic violations of human rights and individual rights"* (Lovdata, 2014, §3; Etikkrådet, 2017). Storebrand and KLP operate with the same criteria for conduct, however, the criteria leave room for interpretation, questioning if it is interpreted in a way that ensures overlapping consensus.

In the report from FIVH they point to the difference in the wording for the product-based criteria is that *"The fund shall not be invested in (...)"* while the wording of conduct-based criteria is *"Observations or exclusion may be decided (...)"*. They argue that the conduct-based criteria are less absolute than the product-based, and therefore leaves room for interpretation. The wording might explain why three times as many companies have been excluded from the Fund based on the product-based criteria than on the conduct-based criteria (Natvig & Vestvik, 2019, p.22).

The Council on Ethics' annual report recommends exclusion of companies under the conduct-based criteria for sale of arms to partners in a conflict where there are extensive violations of humanitarian law or human rights. To exclude, it is required a clear element of complicity from the company's side to the violations through the sale and later use of the weapons (Etikkrådet, 2020, p.29). The Council's recommendation is not to exclude the bomb-producers in question because there is not a clear element of involvement by the company to the violations of humanitarian law. Further, the Council states that *"it seems inevitable that situations may rise where weapons produced by companies in which the fund has invested are used in violation of humanitarian law"*. ICJ therefore criticise the criteria for being misleading.

> "These statements are both misleading as to whether it is the wording of the Guidelines or the Council on Ethics interpretation of these that allows for investments in companies that make bombs used against civilians in Yemen. The interpretation made by the Council on Ethics also

> contradicts the norms that exist for responsible business and international rules for the sale of weapons" (Aziz et al., 2019, trans).

ICJ further criticise the Ministry of Finance for not specifying "unacceptable risk" and that the Council on Ethics must interpret their own guidelines. ICJ argues that the threshold for "unacceptable risk" is so high that companies must produce weapons exclusively intended for use in conflict to be excluded (Aziz et al., 2019).

The interviewees from the Ministry of Finance explain that they have an ethical commitment to avoid the worst companies connected to the worst forms of ethical violations. They add that companies acting responsibly are important because it matters to the risk of the Fund and therefore to the financial return. Seemingly, the second ethical commitment is a commitment to ensure the first ethical commitment, financial revenue. The goal is a high ethical standard, and they wish to lead in this practice. However, the interviewees argue that the threshold for what should be considered gross violations must be high to meet the overlapping consensus as they are managing the assets on behalf of the Norwegian people (Interview#3). But perhaps this threshold has changed. At least it seems problematic that the guidelines leave room for interpretation by critics, such as FIVH and ICJ to argue that the guidelines are not living up to the overlapping consensus.

The report from FIVH also poses ethical arguments. They argue that the Fund should exclude all companies producing weapons because *"arms used in modern warfare and violent actions will always inflict civilians' pain and suffering"* and they therefore argue that GPFG should be able to exclude weapons based on the conduct-based criteria (Natvig & Vestvik, 2019, p.5). However, the Graver-report argues that companies committing gross unethical conduct shall be excluded from GPFG if the Fund becomes an accomplice to these actions, but what qualifies as accomplice in unethical behaviour is unclear. The Graver-report states that GPFG must assess how systematic the unethical the behaviour is. It argues that for the investor to be an accomplice, the unethical conduct must be expected by the investor, and there has to be a form of causation between the companies conduct and the actions one does not want to contribute to (NOU, 2003, p.13-14).

In a comment to the findings made by Mwatana, Kari Elisabeth Kaski (SV-Sosialistisk Venstreparti) argued that GPFG is an accomplice to human rights violations in the Yemen war. She pointed out that all parties in the Yemen war, including Saudi Arabia, are accused of war crimes and the UN has encouraged all countries to stop selling them weapons. It was argued that the Norwegian Government profited on the ongoing war because the revenue of Raytheon increased due to Saudi-Arabia's participation in the Yemen war, which increased the need for arms. Therefore, Kaski criticised the GPFG guidelines and regulations for not being strict enough if it could not avoid arms getting involved in wars (Stortinget, 2018; Foss, 2018). Kaski asked the Minister of Finance:

> "Does the Minister of Finance think it is acceptable that Norway, through the government pension fund global, profits on the very bloody war in Yemen, and is it in the Minister of Finance opinion necessary with a new assessment of investment practice and the Council on Ethics guidelines in light of today's war- and conflict situation?" (Stortinget, 2018, trans).

The Minister of Finance, Siv Jensen (Fremskritspartiet) replied that these investments were not violating any ethical guidelines, and because of the importance that the Fund's conduct is predictable, they had to follow these guidelines. Jensen also said that she did not see a need to reassess the investment practice in GPFG or consider changing the ethical guidelines (Stortinget 2018) which contradicts my previous findings based on criticism.

According to a member from the Council on Ethics the problem with using the conduct-based criteria is that the GPFG is invested in companies, and the companies are not war. Arms producing companies sell weapons subject to licences by a state. States are ultimately in charge of larger arms sales. The interviewee also points to the question of what kind of responsibility the arms producing companies have if they have sold arms before a war breaks out (Interview#1), which Holmqvist referred to as "lag". This also underlines the importance of doing proper assessment of risks, which Holmqvist argue always will be present when it comes to conventional weapons.

There are several aspects of the conduct-based criterion that can be questioned, and it appears as if it is not specific enough, and is unable to fill the gap between international regulation and stakeholder expectation to CSR. The room for interpretation might weaken the overlapping consensus even though the guidelines are not violated. The interviewees from the Ministry of Finance stressed that *"the Fund cannot safeguard all ethical commitments we have as a state"* (Interview 3, trans).

> "If people understood how high the threshold really is, they would probably react. Is the Council on Ethics a way of laundering of the Fund? Yes. Should we have done things differently? I still believe this is the best solution because we are doing the best we can to earn

> money the right way. We are contributing to draw a line between right and wrong" (Interview#1, trans).

It appears that the ethical guidelines are there to give legitimacy towards other companies and stakeholders (Kolk & Van Tulder, 2005, p.4). However, it is unclear whether the guidelines reflect social stakeholders' values.

5.4.3 Spotlight and Trends

Social stakeholders' values and expectations are often reflected in media. As global investors, GPFG becomes a subject to the spotlight. GPFG take its name, reputation and its international image with them when investing abroad (Spar, 1988). With an increasing globalised world companies are subject to public expectations, which Spar (1988) claims creates consumer pressure on improving environmental- and human right performances. Lack of information, especially in conflict areas, leads to complete dependence on information from for example media, to put the spotlight on human rights violations. And because weapons can be stored for a long time, it might be necessary to predict trends and development. These are both important to ensure overlapping consensus, to make sure GPFG does not contribute to violating human rights, and necessary to exclude companies using the conduct-based criteria.

One way stakeholder influence is reflected is through media (Midtun et al., p470), such as in the articles from VG and the report from FIVH. This is therefore closely linked to spotlight theory. The Fund does not engage much with the Norwegian community because elected leaders are setting the standard for the Fund. However, because the investments in production of conventional arms has created debate among social stakeholders in Norway, there is reason to question the presence of overlapping consensus. This is also reflected in a survey conducted by Norstat (Natvig & Vestvik, 2019, p.5).

Stakeholder influence is also highlighted in the myth perspective where organisations' operations are influenced by expectations from the society that are established through trends. The interviewee from Storebrand talked about how excluding weapons from funds soon will become a trend. Their experience is that Norway often adopts what trends are found in Sweden.

> "We started with fossil-free funds five years ago. In Sweden it became very popular that all funds are fossil-free. Weapons are the same and I think it is only a matter of time before it comes from the consumers. We have talked about how it would just be easier to exclude all arms producing companies, but then it is the issue of self-defence" (Interview#4, trans).

Holmqvist adds that one must remember that the Ministry of Finance and Stortinget knows more about the investments than the people in general. Yet, they see that a great interest and concern for cases where the Fund is invested in companies violating basic human rights or other principles. In Holmqvist's opinion, the Norwegian people would support excluding all arms producing companies if they had more knowledge of the investments (Interview#5, trans).

The interviewee from NBIM, on the other hand, was not sure if the situation was new or changing. The interviewee points to how weapons have been on the agenda since the Graver Commission was established and that the new commission, reviewing the guidelines in 2020, has looked at weapons as well. The interviewee comments that

> "I don't really perceive that there is new pressure on weapons generally now. But there are perhaps aspects to how we look at weapons that are new. Autonomous arms, how weapons are used in conflicts. But weapons in itself, I don't think it is more or less relevant or disputed than it has been. But the discussion has become more nuanced" (Interview#6, trans).

This is in accordance with a lot of the criticism that investments in conventional weapons have received. The problem is not weapons in themselves but how they ensure that weapons are not used in problematic ways. This must be done through due diligence and access to information.

Scholars have also examined the effect on NGOs public shaming of for example human rights violations (Barry, et al., 2013, p.532). As NGOs and media often provide the public with information, they have the power to influence the opinion of GPFG's owners. Holmqvist gives an example of how *"the last expectation documents have been made partly due to pressure from civil society, both on taxes and human rights* (Interview#5, trans).

As mentioned, Storebrand talked about how Sweden is more interested in sustainability than Norwegians.

> "In Sweden there are lots of media all the time. They are more advanced than us, or the public in general. And that is very good for Storebrand because it pushes us to be better. Not just to be nice, but because our customers ask for it" (Interview#4, trans).

In my interview with the member from the Council on Ethics, the interviewee claimed that media platforms don't necessarily show the whole truth.

> "People don't understand why companies selling arms to Saudi Arabia haven't been excluded. Saudi Arabia has been the object of a broad campaign in order to halt weapons-delivery. Some of it has to do with war crimes, but a lot has to do with politics".

The interviewee points to how complicated it is to establish that attacks in such conflicts violates humanitarian law, despite the fact that such attacks violate

> "(…) people's feeling of what is ethically acceptable. What you read in newspapers is too random to serve as basis for ethical withdrawal. We cannot make decisions based on what Norwegians read in newspapers. This creates a certain tension." (Interview#1, trans).

This challenges the overlapping consensus. If media decides to only show the Norwegians one side of "the story" it can lead people to misunderstand the full picture of how complicated it truly is to exclude arms companies. At least with the criteria the Fund has today. GPFG cannot exclude based on people's feeling. However, is it truly an overlapping consensus when most people view these investments as unethical?

Sjåfjell et al. (2017) raise the question of whether GPFG is more reactive than proactive, responding to public opinion and media controversy when considering divestment (p.952). They do have the product-based criteria that works as a proactive criterion where companies are excluded before the products have done harm. However, the conduct-based criteria are more reactive to violations that have already happened. At the same time, it is difficult to be proactive when their job is to diversify and invest on behalf of the Norwegian people, especially as GPFG is invested in over 9,000 companies. It is also very challenging to foresee trends and developments. But is it not better to be more proactive and exclude industries that may lead to violations? Knutsen et al. (2011) illustrates GPFG as proactive by the reactions in Norway to dangerous working conditions, deaths and child labour in operations of Norwegian SOEs in developing countries. These conditions and events led to extensive criticism of lack of control from the Norwegian state as an owner, which later led to the expectation documents of NBIM (Knutsen et al., 2011). The expectation documents, on the other hand, is a proactive strategy.

I have expected that *NBIM's codes of conduct are shaped by public expectations rooted in trends that are expressed through media and public shaming.* However, I cannot see that public expectation and shaming has affected the CoC. On the other hand, public spotlight has resulted in expectation documents, which are important to ensure the overlapping consensus. These expectation documents seem to reflect on the expectations of the people and trends in society. They therefore contribute to strengthening an overlapping consensus. But at the same time, it does not avoid investments in arms weakening the overlapping consensus. Even though public shaming does not seem to lead GPFG to exclude arms producing companies, and the influence of the ethical guidelines seems to be limited, I will elaborate other ways GPFG can influence arms companies that justify the investments.

5.5 Socially Responsible Investment - Influencing Companies

In the following sections I will discuss empirical findings in light of the theoretical framework. I cannot answer with certainty if the investments in arms companies have weakened the overlapping consensus as they are not violation national law, international agreements or their codes of conduct. However, there are aspects that are questionable, such as when GPFG contributes to violations of human rights. Therefore, I will investigate whether the investments in arms companies can be justified if they use SRI to influence the arms companies as I, based on theory, expect *NBIM uses SRI strategies such as screening and "voice" to influence arms producing companies.*

Environmental, Social and Government (ESG) information is much used by investors to assess risk of different companies today. Amel-Zadeh & Serafeim (2018) argue that relevance to investment performance is the largest motivation for using ESG, followed by client demands (stakeholder demands), product strategy and finally, ethical considerations (p.87). According to the interviewee from NBIM, the implementation of ESG, risk measurement and the OECD guidelines are what affects responsible investment the most, besides financial return. *"ESG becomes a part of the analysis but doesn't put a limit on the conclusion. It is part of the assessments that should be made"* (Interview#6, trans). As GPFG conducts exit and voice activism, we can place GPFG in Ghahramani's ethics-based paradigm of SRI.

5.5.1 Exit

Among the various ESG investment styles, negative screening, or what Hirschner refers to as exit, is perceived to be the most beneficial to investments and is driven by product and ethical consideration (Kurtz, 2008, p.251). These exclusions are often based on ESG or ethical criteria (Renneboog et al., 2008, p.1723) as presented in the former section. Negative screening based on ESG criteria is the strategy used when there is excluding based on the ethical guidelines. Active ownership is also an important strategy with NBIM and the GPFG. In the annual report for responsible investment, voting is described as the *"most important* *tool we have for active ownership"* as boards set company strategy and are accountable to shareholders (NBIM, 2020b).

Hoepner and Schopohl (2016) systematically analyse the performance effect of exclusion (p.666). They point to how the GPFG has a strong signalling effect on other global asset owners with many investors following their exclusion decisions (2016, p.667). Theory also underlines how exclusion may be challenging for universal owners such as GPFG. Kurtz argue that universal owners are legally required to diversify their assets even if they are engaged in behaviour that might be harmful to others. So, exclusion might be difficult or impossible for large institutional investors (Kurtz, 2008, p.260), such as GPFG. This reflects Graver's conclusion that there should be a high threshold for exclusion of the fund (NOU, 2003, p.34). All exclusions must be well justified and well researched (Interview#2), and as I argued in the previous section it looks like it is difficult to justify exclusion of conventional arms producing companies. Therefore, Kurtz argue that what Hirschner refers to as voice, such as dialogue and voting, is the only strategy that allows the organisations to address unethical behaviour by companies in their portfolios (Kurtz, 2008, p.260). This might be more difficult for GPFG to do if companies are excluded.

5.5.2 Voice

As stakeholders uses voice to express dissatisfaction towards GPFG, NBIM uses dialogue with the companies it is invested in. This strategy is often used when deciding whether to exclude a company or not. Kurtz (2008) refers to this as relative weighting. Companies are assessed of both strengths and weaknesses before a decision is made (p.264). This is what NBIM refers to as observation.

Through dialogue, NBIM raises *"environmental, social and governance issues that may be relevant to the fund's long-term return"* (NBIM, 2020b, p.15). Once again, I would like to point out that the focus is on the main goal "return". NBIM's annual report for responsible investment explains that through dialogue they discuss the board's responsibilities and shareholder's rights, and encourage good business practices (NBIM, 2020b). NBIM engaged with 1,826 companies in 2019. In my interview with NBIM the interviewee said that NBIM conducts dialogue with the largest companies GPFG is invested in because NBIM knows these companies best. In both the report and the interview, relevant information is mentioned as crucial for their work (NBIM, 2020b, p.9; Interview#6). NBIM points to how they must be strategic and focused in their dialogue as NBIM is invested in over 9,000 companies, and therefore good corporate disclosure is important (NBIM, 2020b, p.9). The interviewee adds that there are other aspects that make them engage in dialogue:

> "if there are incidents or our analyses show that companies are exposed to a great risk, we think is problematic, or that they handle issues in an unsatisfying way. This can lead us to conducting dialogue. In addition, we assess the reporting systematically of many companies, up to 2-3000, and follow up poor reporting in many (…) and there are some we choose to have a more intensive dialogue with, such as companies placed under observation or exclusion" (Interview#6, trans).

As introduced in chapter 2, NBIM has also distributed expectation documents and position papers to selected companies to inform them of their priorities (NBIM, 2020b, 42). The expectation documents are used as

> "a starting point for dialogue with companies and as a clear guideline for how we should act on the different subjects". There is no expectation document on weapons today because "We are a bit more thematic than product-oriented. However, arms-issues are relevant under the document we have on human rights" (Interview#6, trans)

Like NBIM, Storebrand conducts dialogue before excluding any companies. The purpose is to establish whether the accusations are correct. The interviewee from Storebrand states that there are

> "two tracks. Something may have happened, so we talk to the company. This is reactive dialogue. Second, we have proactive dialogue. For example, there are some cases that never will emerge such as with emission of methane (…). This is a very damaging greenhouse gas, so it is important that we conduct proactive dialogue with companies to make sure it doesn't happen" (Interview#4, trans).

If Storebrand sees that the company in question is willing to work on the matter, exclusion is not recommended. However, if there is a chance of the problematic action repeating itself it is taken very seriously (Interview#4, trans; Storebrand, n.d.(b)). One could argue that as the risk of weapons being used to harm civilians is large, there should be a proactive dialogue with arms producing companies, ensuring that they conduct due diligence properly and avoid selling arms to countries that are involved in conflict.

Access to information was listed as one of the most important necessities to conduct active ownership (NBIM, 2020b). An important impediment to the use of ESG information is the lack of reporting standards. If the standard was as it should be, due diligence for example, would be easier to conduct. Some of the largest arms producing companies are Chinese, and China is a country known for limited access to information. The interviewee from NBIM said: *"Yes, there is of course less information, but access to information is not only a challenge in China. But this is part of our ownership efforts, trying to access more information"* (Interview#6, trans).

There is not only a challenge with specific countries. Arms production is also known as an industry that offers limited access to information as it is connected to government policy and defence policy. I asked NBIM if this was something they focused on when conducting dialogue with arms companies:

> "many producers of conventional weapon are excluded from the fund because they produce products we exclude. So, we are actually not invested in that many arms companies. There are, of course, sides to the conduct that there is less information about, but the information on arms companies may be better than for some other sectors as there are not that many companies and there is a focus on them, for example from civil society. (…) It is difficult with the lack of information in conflict areas. For our governance work the starting point is that we trust that the companies are under good management and report how they relate to the difficult situations through policy documents and reporting results from their work. Unfortunately, for many subjects such as the social area, the reporting is very inadequate" (Interview#6, trans).

With the lack of information in conflict areas, with arms companies and generally on ESG-information, are there ways GPFG can influence the arms industry that will justify the investments and strengthen the overlapping consensus?

5.5.3 Can GPFG influence the arms industry?

If GPFG can use active ownership to influence arms producing companies, it would be an argument for why GPFG should not exclude them. It may also make investment in these companies strengthen the overlapping consensus. The Graver-report states that the GPFG is a large fund, which gives it direct and indirect power of influence. It can affect directly through their rights as owners, although, as they are minority shareholders, their influence on a company is limited. The report argues that the Fund can influence companies indirectly through markets by saying they do not want to buy shares in that specific company, sending signals to the managers of the company, other actors and clients. Further, the report adds how the Fund is a model to other funds or investors who will follow their lead by implementing ethical guidelines (NOU, 2003, p.16). Another way GPFG can influence is through dialogue (NOU, 2003, p.29).

The interviewee from NBIM expressed the difficulty with saying something general about influence. However, they observe that dialogue has some effect.

> "Some are easier to influence than others. Having dialogue with a car producer about how they adjust to the transition of low carbon is absolutely possible. If you come to a tobacco producer and say that they shouldn't produce tobacco anymore it is probably not a dialogue that you come a very long way with" (Interview#6, trans).

The interviewee adds that they therefore conduct active ownership in a systematic way anchored in international standards and expectation documents. Dialogues seem to have some influence over time, although, it is difficult to measure the real effect (Interview#6). The interviewee from Storebrand said that you only come so far with dialogue when it comes to arms companies because you cannot make them stop producing weapons. *"It is perhaps possible, to a certain degree, to talk to controversial arms producers and make them stop producing controversial weapons and continue producing conventional. But from conventional to do not produce weapons is never going to happen"* (Interview#4, trans). The Ministry of Finance interviewees said: *"Much can be discussed here, but when a responsible investor sells, what happens then? Yes, someone else buys the shares. So, there are many dilemmas in this picture. Arms production will not stop even though we sell"* (Interview#3, trans).

The Graver-report says explicitly that exclusion is not recommended as a tool of influence. They believe that active ownership will be more beneficial as a negative reputation will be more influential (NOU, 2003, p.24). If using the argument from the interviewees from the Ministry of Finance, exclusion will only let others, perhaps someone "worse", buy the shares and influence the arms industry. It is not given that excluding a company will lead them to change their practice. While GPFG holds shares, it may conduct active ownership, perhaps influencing which countries weapons are sold to. This could strengthen the overlapping consensus. However, others disagree and argue that exclusion is more favourable, and if arms producers cannot be excluded from the Fund following the present institutional framework, this is yet another argument for changing the GPFG's CoCs.

I asked the interviewee from KLP about the possibility to influence arms companies as investors:

> "It is possible to influence, but it depends on the company and the weapons. It is probably few that are possible to influence. But when it comes to conventional weapons it is probably easier

> to influence as many companies are concerned about not selling arms to countries that shouldn't have them" (Interview#2, trans).

This suggests that active ownership might influence companies to avoid selling weapons to countries involved in conflict. However, the interviewee also expresses that it is important to remember that you do not lose the opportunity to influence by excluding, but exclusion must be used correctly. *"One has definitely the largest influence by exclusion. If a company is excluded, they almost always reach out again to talk about what they can change to get you to invest again"* (Interview#2, trans). Further, the interviewee points out that the GPFG has extensive power, and that when funds that follow them, such as KLP, also exclude the company it will have consequences for the company in question (Interview#2). The member from the Council on Ethics also argue that exclusion can have an effect:

> "Being excluded by the Bank is a nuisance because the Fund is a large and long-term investor, and due to the publicity of the recommendations. This gives effect on many levels, especially for Western companies, wary of their public posture. In other parts of the world, exclusions do not necessarily produce the same reactions, for example with Chinese companies" (Interview#1, trans).

This contradicts the Graver Commission's statement and indicates that perhaps the threshold for exclusion must be lowered. On the other hand, the member from the Council on Ethics also points to the arms race and the rapid technological developments within the defence industry, and notes that it might be unwise to exclude the entire defence industry because we thereby also preclude any possibility to influence how the industry develops (Interview#1). This takes us back to the argument from the Ministry of Finance, that we do not want someone "worse" to influence the development of the arms industry.

There is much disagreement about influence through active ownership when it comes to conventional arms companies. Through my findings, it seems as if influencing companies to conduct proper due diligence through dialogue and avoid sales to certain countries is possible, but it is difficult to measure and ensure information as weapon is a sensitive subject. Furthermore, there is disagreement on whether exit or voice has the stronger effect. As the ethical criteria makes it difficult to exclude arms companies, dialogue is perhaps the most efficient way unless the criteria are changed. In my opinion dialogue may influence who arms companies sell to, and GPFG might have a say when it comes to development of new types of weapon. This supports my expectation of *NBIM use SRI strategies such as screening and "voice" to influence arms producing companies*. The question is to what degree they actually influence, and if it is enough to justify that there is an overlapping consensus. To investigate this further, I will look at other reasons for why one might invest in arms companies, and if GPFG ensures that its investments are in accordance with their responsibility as universal owners.

5.6 Intergenerational Justice & Absolute revenue

Reinhardt et al. (2008) presents the nexus of contract between suppliers who agree to cooperate in order to generate monetary returns. Shareholders have no contractual guarantee of a fixed payment from the company's activities, and therefore, loosing profits by doing "social good" comes out of the present and future Norwegian generations "pockets" (2008, p.220-221). In this argument, investing with any other goal than a financial one will be illegitimate. This supports the main purpose listed in the mandate of creating the highest possible return to the Norwegian people and future generations. As a universal owner, the "progressive view" is probably more suitable. Here, corporations shall benefit the society at large and to a wide variety of stakeholders, where sacrificing profits in the public interest is legitimate (Reinhardt et al., 2008, p.220-221). Certain expectations follow a universal owner, and in this section, I investigate whether *NBIM, as a universal owner, practice absolute returns in order to meet the need of future generations without compromising the present generation.* This is important as in order to ensure overlapping consensus.

In the UN Global Compact, principle 1: *"Business should support, and respect protection internationally proclaimed human rights; and principle 2: make sure that they are not complicit in human rights abuses"* (UN Global Compact, 2016), the important word is "complicit". As previously expressed, it is difficult to see where the line of being complicit is drawn, which is why it is difficult to argue that GPFG contribute to human rights violations. However, even though GPFG's main purpose is to save money for future generations, *"There has to be a world we want to live in"* (Interview#4, trans). Therefore, as Wood and Urwin (2010) argue, sustainability is important to pension fund investment (p.4-5). And as mentioned in chapter 3, sustainability and intergenerational justice are closely linked (Gossieries, 2008). They must *"meet the needs of the present without compromising the ability of future generations to meet their own needs"* (UN, 1987, p.28). The interest of one generation cannot be at the expense of another generation. If investments in conventional arms industry violates human rights and contributes to destruction, the GPFG is not upholding intergenerational justice. Norwegians "happiness" is not to be at expense of someone else's for there to be an international and national overlapping consensus.

In the OECD Guidelines it is written: A(1) *"Enterprises should contribute to economic, environmental and social progress with a view to achieving sustainable development"* (2011, p.19). Further, *"There should not be any contradiction between the activity of multinational enterprises (MNEs) and sustainable development, (...). Indeed, links among economic, social, and environmental progress are a key means for furthering the goal of sustainable development"* (2011, p.21). Weapons are not an exception: A(5): *"Enterprises should refrain from seeking or accepting exemptions (...)"* (OECD, 2011, p.19).

The interviewee from Storebrand explained their focus on sustainability:

> "yes, of course people need pension, but not just that. They also need a world where you can enjoy the pension so you can't just think about money and destroy the world at the same time (…) We have also seen many studies that show how sustainability is good for business and for the companies. It's not only because we are kind or just because we shall have something to look forward to. It is also because we see that sustainable companies will do better long-term. This is why SRI is important (…) If you ask me, arms nature is to kill people and that is not very sustainable. No matter if it is soldiers or civilians. However, in the UN Charter, countries are allowed to defend themselves, and based on this, investments in conventional weapons continue" (Interview#4, trans).

If there is to be a world we want to live in, and thereby ensure national and international overlapping consensus, it is important to focus on absolute return, having environmental and social goals to improve the economy at large.

5.6.1 Sustainable Development Goals – Agenda 2030

To ensure that there is a world we all want to live in, the Sustainable Development Goals – Agenda 2030 (SDGs) were introduced. This has also been important to Norwegian citizens and engaged NGOs and the Norwegian Government. The SDGs consist of 17 goals which are "an urgent call for action by all countries in a global partnership" (UN General Assemply, 2015). The Agenda is a plan of action for "people, planet and prosperity". It seeks to strengthen universal peace and freedom (UN General Assembly, 2015). The Norwegian Governments foreign policy's priorities are well anchored in the 2030-agenda (Regjeringen, 2020). This means that the SDGs must be viewed as norms reflecting the Norwegian and global society, and as a state-owned universal owner, the GPFG should contribute to reach these goals to ensure overlapping consensus. The UN Global Compact also address how SDGs should be a more integrated part of business (UN Global Compact, 2016, p.2).

Storebrand's sustainability principles sum up how sustainability is an integral part of their business. One of these principles is the SDGs (Storebrand, 2019, p.15). They even calculate a Sustainability Score on over 4500 companies building on ESG risk and SDG opportunities. On the SDG opportunity they analyse sustainability data sources, to find companies whose products and services contribute positively to the achievement of financially relevant SDGs (Storebrand, 2019, p.15-16). This can be viewed as positive screening, and what Rawls (1972) refers to as positive duties that are making additional contributions to the well-being of the society.

NBIM writes that as a long-term and global owner, the GPFG has an interest in a more sustainable economy. Achieving the SDGs in both developed and developing countries is a way to reach long-term return (NBIM, 2018).

> "Our main contribution to a more sustainable global economy will be through our investments in public markets. Due to our size and presence in financial markets, our diversified investments may contribute directly or indirectly to many SDGs. Beyond providing long-term capital to companies, we relate to the SDGs in four main ways: i. by promoting long-term value creation in companies, ii. by investing in developing markets, iii. by investing in companies providing environmental solutions, and iv. by divesting from unsustainable businesses" (NBIM, 2018, p.5).

The interviewee from NBIM points out how the SDGs are a little different because they really are political goals rather than binding agreements. However, they want to reach the SDGs because they believe it will make the economy sustainable over time (Interview#6).

One of the SDG goals are "Peace: Foster peaceful, just and inclusive societies which are free from fear and violence" (Kolk et al., 2017, p.11). Are investments in weapons contributing to a world without peace, or are weapons necessary to create peace?

Figure 5: Disarmament and Arms Regulation in the 2030 Agenda for Sustainable Development (UN Office for Disarmament Affairs, 2018, 8).

The figure shows that weapons can affect almost all the SDGs. In the report «Securing Our Common Future: An Agenda for Disarmament" the UN Secretary-General, Antonio Guterres, emphasizes that we are living in dangerous times with conflicts that create human suffering in a more complex world. "This new reality demands that disarmament and non-proliferation are put at the centre of the work of the United Nations" (UN Office of Disarmament Affairs, 2018). The reason for this agenda is that the cost of more frequent armed conflicts that are *"longer and more devastating for civilians"*. The global military expenditures are also at its highest level since the fall of the Berlin Wall. The report adds that new weapons technologies increase the risk, including the ability of non-state actors such as extremists and militias to carry out attacks across international boundaries. Numbers show that many thousand more civilians are affected by explosive weapons than combatants (UN Office of Disarmament Affairs, 2018, p.33-35). They add that all financial entities have the power to ensure that their investments do not contribute to such actions (2018, p.70).

By focusing on SDG-goals the expectation of *NBIM practicing absolute returns in order to meet the need of future generations without compromising the present generation* is supported. On the other hand, all the ways arms can hinder the world to reach the SDGs, contradicts the SDGs and therefore the expectation as it does not produce absolute return. If GPFG are not meeting their expectation as a universal owner, it also weakens the overlapping consensus.

5.7 Private vs. State Owned

My final expectation is that *GPFG acts no differently than private investors but is more likely to have non-economic goals such as political and ethical objectives.* If GPFG has political objectives this would weaken the overlapping consensus, as there is a broad consensus in Stortinget that GPFG should be separated from politics. Therefore, I will investigate whether the GPFG, as a state-owned fund, is more influenced by politics and political goals than Storebrand and KLP, and whether GPFG maintain overlapping consensus by avoiding being political.

Christensen et al. (2020) writes that private and public organisations are fundamentally different. First, they point to how public interests differ from private interests because the public sector must consider a broader set of norms and values. Second, leaders of public organisations are accountable to citizens and voters rather than to shareholders and special groups as private organisations are. Third, because they are accountable to citizens, public organisations require a greater emphasis on openness and transparency. They add that the difference between the two are dismissed as stereotypes (Christensen et al., 2020), but there must be a reason that the funds invests differently. First of all, public organisations must follow all rules that Norway has committed itself to. However, so must the private ones. Private and public organisations are subjected to a common set of rules and principles (Christensen et al., 2020). *"State-owned multinational enterprises are subject to the same* *recommendations as privately-owned enterprises (…)"* (OECD, 2011, p.22). Therefore, Knutsen et al. (2011) argue that state-ownership might not have a direct influence.

5.6.2 Financial Return and Sustainability – Pareto-Optimal?

Absolute return and the SDGs bring me to question whether investing ethically means less financial return, and is therefore not pareto-optimal? Classical economic theories state that ethical investments and highest possible return are pareto-optimal. Storebrand claims that *"It's a myth that there are contradictions between sustainability and return. Figures from the pension authorities in Sweden show that the sustainable equity funds have actually had higher returns than "ordinary" funds over the past five years"* (Tørring & Moum, 2018). This indicates that ethical investments lead to higher financial return, or at least not reduce it, which means that the two are pareto-optimal. So why doesn't the GPFG exclude all weapons from the fund, as many regard these investments as unethical?

A long-term investment perspective is key because Storebrand manage customers' pension savings over the span of decades. International studies support their observations that the most sustainable companies on the world's stock exchanges tend to outperform their peers financially over time (Tørring & Moum, 2018) They have a better understanding of the global development and how to manage risks and opportunities. The customers are also increasingly demanding sustainable investment products and solutions, and 36 percent of the Norwegian population say they have stopped buying a product or service due to unsustainable practices in the company (Storebrand, 2019, p.27).

Modern economic theory, on the other hand, states that profit maximising behaviour does not necessarily mean social welfare maximation (Renneboog et al., 2008, p.1730), which is more aligned with the nexus of contracts and NBIM's main goal. According to Reinhardt et al.'s (2008) "progressive view" corporation have a responsibility to a wide variety of stakeholders, and in this case sacrificing profits is in the public's interest and legitimate (p.220-221). This is reflected in the Fund's stakeholders' expectations to the Fund as a universal owner. Not only is it legitimate among stakeholders, but Reinhardt et al. (2008) also argues that CSR is financially beneficial because it improves economies at large (p.221).

But the main goal of GPFG is still profit maximation, and this can be a challenge if a whole sector must be excluded. Gjessing and Syse (2007) point to how universal owners' goal can pose challenges. They argue that NBIM is primarily mandated to produce relative returns, but because they are universal owners, they must target absolute return (Gjessing & Syse, 2007, p.427). The responsibility of universal owners comes back to the two ethical commitments the Ministry of Finance addressed. In my interview with NBIM, the interviewee mentions that absolute return largely influences the strategy (Interview#6), which is reflected in the annual report's focus on sustainable investments. As universal owners, GPFG diversify its values across sectors and in all countries where it believes it can get the best returns, and their performance therefore depends on the performance of the economy at large (Hawley and Williams 2007, p.416). Diversification among sectors gives an argument for investment in the arms industry. On the other hand, it depends on whether one regard weapons as financially beneficial or not. Holmqvist argues that *"The Fund wants all markets to grow, and in this perspective, it is strange to invest in war that destroys so much. In a longer financial perspective, there is low probability of it being profitable"* (Interview#5, trans).

These arguments show indications that the practice includes *absolute returns in order to meet the need of future generations without compromising the present generation*, generally. However, the only argument I can find for investing in arms industry here is to diversify investments among different sectors. Looking at how state-owned companies might have different goals and considerations than private funds, can give insight in how investments in arms producing companies can be justified.

5.7.1 Different Stakeholders

GPFG has the entire Norwegian present and future generations as their stakeholders, while Storebrand and KLP has customers. Storebrand talks about how they have focused largely on sustainability, mostly because their customers ask for it. Therefore, they offer different funds where you can choose to invest more sustainable (Storebrand; Interview#4).

The interviewee from KLP explained that it is difficult for them to deviate from the GPFG because it is a large actor and that their customers expect them to follow GPFG. However, the interviewee adds that *"We can go further and exclude conventional weapons, and we have a family of "svanemerkede[14]" funds that also exclude arms companies. So, we have a good alternative to those who doesn't want to invest in the arms industry"* (Interview 2, trans).

The member from the Council on Ethics also argue that private investors exclude unethical companies because they must sell themselves as ethical to their customers (Interview#1). The interviewees from the Ministry of Finance supports this view:

[14] The Swan is the official Nordic ecolabel and demonstrates that the product is a good environmental choice (Svanemerket, 2017).

> "A private fund has different owners (…). The starting point is similar, but there will always be differences. We will not be able to offer many different funds to customers wanting different profiles, but we have to think that our point of view is that the owners are the Norwegian people, and how they are represented. And they are represented through Stortinget" (Interview#3, trans)

Sievänen et al. (2012) points to how stakeholders are increasingly holding pension funds accountable for the non-financial consequences of their investments. The difference between Storebrand and KLP, and GPFG is that Storebrand and KLP can offer different funds which makes it possible for stakeholders to choose how their money is invested. This is, however, not possible for the GPFG. Even though the same values apply to both private and public funds in Norway, GPFG must ensure overlapping consensus among all stakeholders and consider a broader set of norms and values. However, if customers ask for more ethical funds, including the customers of KLP whom expect them to follow GPFG, it can be argued that GPFG's investments today are not ensuring complete overlapping consensus. Still, Storebrand and KLP only have a certain number of customers and it needs to be investigated further.

5.7.2 Corruption

Furthermore, Knutsen et al. (2011) look at possible differences in how or where companies invest. They argue that SOEs are more "bendable" to invest in countries with high level of corruption and weak legal framework because SOEs can expect to be "reimbursed" by the home state in case of expropriation. Therefore, the risk of a negative outcome is smaller for SOEs than POEs (Knutsen et al., 2011, p.25). As GPFG has hardly excluded any countries from their investment plan, nor have excluded the arms industry, which is highly characterised by corruption, these findings seem applicable to some degree. According to economy professor Kalle Moene, the international arms industry appears to be the most corrupt industry in the world (Natvig & Vestvik, 2019, p.18) because the international arms industry is characterised by high competition and little transparency. In addition, the development of military equipment is often expensive, especially for advanced weapon systems and larger equipment such as planes, boats and tanks. The high costs pressure a need for successful sales, and thereby an incentive to use illegal methods (Natvig & Vestvik, 2019, p.18).

The member from the Council on Ethics and KLP also explains why the arms industry is characterised by corruption:

> "The arms industry is shred in secrecy. The industry therefore also suffers from an unusually high level of petty corruption. However, the ordinary open sources such as trials are not available to the same extent. These companies will therefore seldom be excluded based on of corruption. The arms industry will mostly be protected against ordinary legal proceedings due to executive exemptions or classified proceedings" (Interview#1, trans).

"What increases the risk of corruption is that arms companies often make contracts with governments" (Interview#2, trans). One example is the corruption accusation against Brazils former President Lula Da Silva and his son Luis Claudio, whom allegedly took bribes in connection with sales of 36 fighter aircraft from SAAB to Brazil. Another example is the Italian company Leonardo which has been involved in serious corruption cases in several countries. The Fund is invested in both companies, but Leonardo is under observation based on the corruption criteria in the ethical guidelines (Natvig & Vestvik, 2019, p.18). If the industry is characterised by corruption, it poses another argument for why excluding companies to ensure the overlapping consensus. The member from the Council on Ethics points to a common close connection between corruption and violations of human rights (Interview#1), which would indicate that this industry generally contains a bigger risk of such violations that GPFG, according to UNGP and OECD Guidelines, should do their best to avoid. However, can these investments still be explained by the ownership?

5.8.3 Political Influence

Knutsen et al. (2011) argue that SOE owners are more likely to have non-economic goals and may be linked to foreign policy or foreign aid (p.6). To avoid this, the Norwegian Government clearly distinguishes between the state's role as policy maker, supervisory authority and owner. Unlike many other OECD countries, Norway does not even have a state representative on SOE boards (Knutsen et al., 2011, p.14). Still, can GPFG be influenced by political goals and thereby weaken the overlapping consensus? The strongest criticism is that SWFs are a threat to the sovereignty. More moderate critics worry that SWFs will make decision based on political rather than financial reasons (Cilson & Milhaupt, 2008, p.1345). Kurtz (2008) also pointed to how universal owners may come very close to policy activity which might disturb the decision-making process (p.260). One can argue that the GPFG is completely independent from politics, but Hirschman (1970) argues that the politization is inevitable when it comes to institutional relationships with corporations (p.32-33). Kurtz (2008) also pointed to how universal owners have "quasi-political responsibilities" such as climate change, and that GPFG therefore has to take part in some "political activity" (p.260).

In the Ministry of Finance annual report to Stortinget (2018-2019) it states that there is a broad political entrenchment over how GPFG should not a political instrument (Finansdepartementet, 2019, p.5). And if GPFG's decisions had been influenced by Norwegian politics, NBIM could not have conducted active ownership in a professional and orderly manner. The interviewee from Storebrand said:

> "The thing is that everything that has to do with the GPFG becomes more political because it is Norway's sovereign wealth fund. So, if you exclude a company from China on environment, then you might send a signal to China. But if you are to exclude a company because you don't like that they sell weapons to a country who might use it against they own citizens, then it becomes obvious criticism of how a State acts. And the moment you are political, then you are super political. So, they have a much harder job than we do. With private funds, people don't view those decisions as political" (Interview#4, trans).

The interviewee from NBIM agrees and states that they are careful to not be a political tool, and that Storebrand is perhaps able to take positions they cannot take (Interview#6). So, as there is broad consensus that GPFG is not to be political, they have to be careful of not sending signals that can be perceived as a political stand. Kurtz (2008) pointed to how universal owners may come very close to policy activity which might disturb the decision-making process (p.260), and it can seem as if GPFG's activity is disturbed by politics in that they are trying to avoid being political. Therefore, it becomes difficult to exclude arms companies in specific countries, and it would perhaps be easier to exclude the whole industry. One example of such a challenge GPFG has is that Norway has a military defence and is a member of NATO. Excluding arms completely might therefore be interpreted as a political stand. Holmqvist from FIVH, however, argues that

> "We may continue to be a part of NATO, both as a defence force and as a national arms producer. Our opinion is not that withdrawing from the shares in other arms producers makes the Norwegian industry unable to trade with other NATO-countries. And people can be unhappy if we exclude all arms, but it is our fund and a solid justification, so I don't think it would pay off to other NATO-countries to attack that decision as it is founded on principles they agree with By attacking that decision they will have to expose that their arms industry violates international rules" (Interview#5, trans).

The interviewee from KLP argues that it is also important to remember that the Fund is owned by Norway. "*It is impossible to separate politics. The best would be to think that you don't sell arms to countries involved in conflict*" (Interview#2, trans). This argument reflects on the theoretical claim of international cash flows always being political (Gilson & Milhaupt, 2008, p.1345). Arguments from the report from FIVH can also support this claim. The report states that by investing in weapons, the fund actually becomes political. The authors argue that investments in international arms industry is security policy. An increasing number of countries develop arms industry. More and more companies from an increasing amount of countries are included in the reference index the Fund invests from. The report claims that through such investments, Norway gives capital to develop and produce arms that contribute to a global armament. Weapons produced by companies GPFG invested in might end up being used against Norway and our allies. Thereby, Norway contribute to increased insecurity in the world, also against Norway (Natvig & Vestvik, 2019, p.6). They add that by investing in weapons that are used as part of conflicts, the investments become politicised. They argue that the investments in Raytheon become an indirect support of the Saudi-coalitions political goals (Natvig & Vestvik, 2019, p.20). This seems to reflect Backer's (2009) findings, that GPFG acts no differently than other private funds, but that it also pursues state policy indirectly (p.499). If the Fund's investments in the arms industry actually becomes political while the mandate clearly states that they shall be separated, it weakens the overlapping consensus.

Holmqvist adds: *"(...) it is a clear basis in human rights and humanitarian law for such a decision [excluding arms companies]. But that doesn't mean that the fund becomes a political actor"* (Interview#5, trans). As such it will be possible to exclude companies selling to certain countries, using international principles as justification, and therefore avoid it becoming a political decision. The Ministry of Finance, on the other hand, argues that if the Fund becomes more political it will change how they are perceived as investors by other companies, other investors and regimes (Interview#3, trans). *"Other sovereign funds use it for political purposes. But when other countries use it for politics, it is even more important for us to distance the fund from politics"* (Interview#1, trans). However, if investments in weapons are already perceived as political, it cannot make much of a difference excluding the companies. Storebrand proposes that GPFG can cooperate with other investors to avoid being perceived as political.

> "So many of the things we do with other investors is that we come together to create leverage against a company. But if you are going to change a business you need many on the same side, asking the management to change things. (…). GPFG do many things alone, which I understand because they are big and don't necessarily need others. But at the same time,

> cooperating with other investors could have helped decrease the political impression. The sovereign pension fund in Sweden does this" (Interview#4, trans).

As Storebrand thinks excluding arms will become a trend in Norway, and as many funds already follow the decisions of GPFG, they could consider excluding arms companies based on the risk of arms violating human rights together with other investors. This could avoid the decision being perceived as political. On the other hand, avoiding criticism based on Norway having a military can be difficult and excluding arms could therefore bare the risk of weakening the overlapping consensus.

The Graver-report also review the argument of the Norwegian army and whether it will be inconsistent to deny the Fund to invest in production of arms that are used in the Norwegian defence and the production the state themselves are involved in. They conclude that it is not inconsistent. To have shares in the arms industry besides what is justified in the countries defence policy, is outside of what can be defended from an ethical point of view. It is therefore not necessarily inconsistent to claim that it is ethically justifiable to have a Norwegian defence industry that participates in an international arms market, and at the same time conclude that it is unethical to have shares in a foreign arms industry. The first is done to defend, the second to earn money. Therefore, it must all be based on ethics (NOU, 2003, p.18-19). This argument contradicts the justification of investing in the conventional arms industry because we have a defence, and therefore it cannot be viewed as a political issue that will weaken the overlapping consensus. As arms can contribute to destruction and not improving economy at large, I cannot see how it would be impossible to argue that all arms producing companies should be excluded on a financial and ethical justification and thereby ensure overlapping consensus.

Based on the argumentation, my last expectation is contradicted: *GPFG acts no differently than private investors but is more likely to have non-economic goals such as political and ethical objectives.* I find that the GPFG, Storebrand and KLP are very similar in how they act as investors, focusing on the same financial goal. However, GPFG must ensure consensus with a much larger and varied set of norms as all Norwegian citizens are the owners. As they are unable to offer different funds, this becomes a perhaps easier job for Storebrand and KLP. As pointed out by several interviewees, GPFG, as a sovereign fund and universal owner, must also consider how their actions may be perceived as political by others. As such, the GPFG is forced to act somewhat differently than private investors, but I don't see them being more likely of having non-economic goals than Storebrand and KLP. However, even though I cannot find that GPFG has political goals, it is perhaps necessary to review whether the investments in arms become political indirectly and unwillingly. If so, GPFG should exclude arms companies in order to uphold the management mandate and therefore overlapping consensus.

Chapter 6 - Summary & Conclusion

As the largest sovereign wealth fund in the world and global investors, GPFG's conduct is often in the spotlight. Their investments in conventional arms producing companies have especially received criticism from media and NGOs for the last two years. In the survey conducted by Norstat it was clear that most of the respondents do not think investing in arms companies is acceptable. Investments in companies such as Raytheon have been criticised for not being in accordance with international agreements or the ethical guidelines, which would weaken the overlapping consensus. The aim of this thesis has therefore been to investigate whether the investments in arms producing companies challenges the overlapping consensus: *Does the GPFG's investments in arms producing companies weaken the overlapping consensus between the Fund and Norwegian citizens, the Funds ultimate owners, by violating national law, international agreements, and/or ethical codes of conduct?*

To investigate my research question, I started by introducing GPFG's role and reviewing the criticism regarding investments in arms producing companies. Chapter 1 also clarified the contribution of this thesis. Chapter 2 continued as an introducing chapter, providing a brief explanation of how and why the Fund was founded, the Fund's current structure, and the institutional framework. Chapter 3 moved from the empirical introduction to a literature review and presentation of my theoretical framework. Chapter 3 was sectioned into three parts. Part One looked at CSR, SRI and Universal Ownership, and how this can influence GPFG's conduct. Drawing on the theoretical framework from Part One, I developed three expectations:

1. *NBIM invests responsibly by conducting responsive and strategic CSR that meets the expectations of institutions and stakeholders.*

2. *NBIM uses SRI strategies such as screening and "voice" to influence arms producing companies.*

3. *NBIM, as a universal owner, practice absolute returns in order to meet the need of future generations without compromising the present generation.*

Part Two looked at external mechanisms that may lead to implementation of voluntary international regulations and codes of conduct. It introduces the myth perspective, spotlight theory, and theoretical perspectives on what codes of conduct are and how they can be used as strategic instruments. This left me with a fourth expectation:

4. *NBIM's codes of conduct are shaped by public expectations rooted in trends that are expressed through media and public shaming.*

Finally, Part Three provided an overview of theoretical framework that could help to understand how and why private and state-owned investors might differ from each other. It contains theories on how the funds have different stakeholders and therefore different norms to consider, and how politics can influence state-owned companies. This provided the final expectation:

5. *GPFG acts no differently than private investors but is more likely to have non-economic goals such as political and ethical objectives.*

6.1 Main Findings

First, I would also like to emphasise that although literature often point to GPFG as an exception, I found most of the theoretical framework very useful when conducting my analysis. Literature should therefore not dismiss GPFG from theory.

Investigating the first part of the research question, I find that NBIM's management mandate's main goal of creating the highest possible return (relative return) is upheld because the investments in arms companies are financially profitable. Therefore, the overlapping consensus is not weakened by violating national law. However, it has been criticised that GPFG's lack of a framework reflecting the purpose of the Norwegian export control system. The list of countries Norway can export arms to is incoherent with the Fund's product-based criteria. I find this problematic to the overlapping consensus as the export system reflects on Norway's norms and expectations.

Second, I find that the investments in arms companies are not violating Arms Trade Treaty (ATT), UN Guiding Principles for Business and Human Rights (OHCHR) or OECD Guidelines for Multinational enterprises, although there are aspects that leave room for interpretation. The most problematic aspects are due diligence and that none of the agreements clarify what "contributing to" truly means. As GPFG is always one step further from human rights violations than the company, it is challenging to know where GPFG's responsibility starts and where it ends. Since Norway cannot change the agreements, I conclude that the overlapping consensus is not weakened by violating national laws. However, it indicates a need of Codes of Conduct (CoC) to fill the gap between international agreements and stakeholder expectations in order to strengthen the overlapping consensus.

I also find that the lack of clarification in the Fund's ethical guidelines problematic. Although the criteria are not directly violated, the product-based criterion on which countries weapons and military material can be sold to, section 3-1(2)(c), seems inconsistent with Norwegian values. Second, the conduct-based criteria are problematic because the way they are formulated leaves room for interpretation. As companies themselves do not participate in war, it is difficult to conclude when or if they are contributing to violations of human rights. However, the criteria should be clarified and include the importance of ensuring proper assessment of risks to ensure overlapping consensus. As the ethical guidelines are so heavily criticised and subjected to public shaming, the CoCs are not reflecting an overlapping consensus. Even though I find aspects of GPFG's ethical guidelines problematic, I cannot conclude that the overlapping consensus is weakened by violating ethical CoCs. This leads me to conclude that expectation 4 is not confirmed, as I cannot see that the ethical guidelines are shaped by public expectation and trends. This could be because GPFG cannot make decisions based on people's feelings of what is ethically acceptable. One of the most interesting findings was how media/news platforms do not necessarily show the whole truth, leaving the public with a lack of insight. It is therefore understandable that those with more access and insight to the Fund's activities make these decisions. It is also unreasonable to expect GPFG to foresee trends and developments, such as a war that might happen ten years from now. Even so, we can require that NBIM is proactive by conducting proper due diligence and be reactive to ongoing conflicts.

Even though trends and public shaming do not affect the CoCs, I find that they do affect the Fund's conduct, such as the implementation of expectation documents. Thus, I investigate whether GPFG's SRI strategies can influence arms companies or not, thereby ensuring overlapping consensus. There were many different opinions among my panellists to whether arms companies can be influenced through voice or exit, especially when it comes to which method that is most influential. I find it very difficult to draw a conclusion as there is no way to measure the real effect of NBIM's active ownership. However, drawing on the different arguments, I find that influencing arms companies is challenging, but it is possible to pressure them into ensuring that due diligence is conducted and reported properly. I also implicate that being invested in companies when the arms technology changes rapidly can be wise as it offers a possibility to influence the industry's development.

Further, I argue that NBIM, as a universal owner, has a responsibility to ensure intergenerational justice by improving the economy at large, which is reflected in the management mandate stating that NBIM shall conduct sustainable investments. The interviewee from Storebrand makes a valid point when saying that "there has to be a world we want to live in". The SDGs are a way to ensure this, which both Storebrand and GPFG include in their investment strategy. However, I find investments in conventional arms industry contradicting to the SDGs, making it difficult to argue that financial return and sustainability is pareto-optimal. I conclude that GPFG's investments in arms producing companies do not ensure intergenerational justice or allocate absolute returns, weakening the overlapping consensus.

Lastly, I investigated whether state-ownership leads GPFG to invest differently than private funds. This is based on the final expectation: *GPFG acts no differently than private investors but is more likely to have non-economic goals such as political and ethical objectives.* I find that what is most influential is the difference in stakeholders. Storebrand and KLP can offer different funds adjusted to the expectation of their customers, while GPFG cannot. This makes it challenging to meet everyone's expectations, which is why overlapping consensus is important. Politics also influences the GPFG, but not in the way I expected. I expected GPFG to have political goals. Instead its investments are influenced by the importance of not being political. Exclusion becomes a barrier, as everything can be perceived as a political act, including excluding weapons. On the other hand, investments in arms companies selling weapons to countries in conflict can be regarded as political support to that country. Because of this barrier, GPFG should follow interviewee#4's advice and start cooperating with other investors when they have a concern. I also find that investments in arms industry can be viewed as political, same as excluding the arms industry can be perceived as political. However, I regard it as more problematic if GPFG is perceived as political when invested in arms companies connected to war and as such, arms companies selling to countries in conflict should be excluded.

The most surprising finding was how high the threshold really is for exclusion and how informant#1 argues that the Council on Ethics is a way of laundering the fund. Even so, the informant argues that the ethical guidelines is the best solution we have. This indicates that the high threshold weakens the overlapping consensus, and that the threshold must be lowered when it comes to industries that pose an extra risk to human rights violations. It also suggests that the ethical criteria must be changed. Thus, I conclude that investing in arms producing companies does not weaken the overlapping consensus between the Fund and Norwegian citizens, the Funds ultimate owners, by violating national law, international agreements, and/or ethical codes of conduct. However, my analysis indicates that the overlapping consensus between the Fund and Norwegian citizens is weakened because of the high threshold for exclusion and a framework leaving room for interpretation. Hence, the ethical guidelines should be changed to reflect the norms of social stakeholders.

6.2. How can the Guidelines be changed?

The organisations behind the FIVH-report suggest that *"The Fund shall not be invested in companies that themselves or through units they control produce weapons"* (Natvik & Vestvik, 2019, 6, trans). Thus, they suggest putting all weapons under the product-based criteria. However, I argue that because weapons contribute to peace and security, and because Norway have a military defence, all conventional weapons should not be excluded from the fund.

KLP suggest that GPFG *"do not invest in countries where one does not have good enough control (…) The list of where we can sell may be used"* (Interview#2, trans). I agree with KLP and suggest that the product-based criteria are changed in accordance with the countries listed in the export control system.

GPFG should also review the suggestions from the ICJ who makes more detailed suggestions as to what the Council should look at in order to comply with UNGP and ATT:
1) Are arms sold to countries in conflict?
2) What do we know about the conflict the country is involved in, and are they accused of war crimes?
3) Is there a risk that the equipment can be used to commit war crimes?
4) What does the company do to ensure that their equipment isn't used in this conflict?
5) What kind of knowledge does the employees about laws and rules that applies to war and conflict (Aziz et al., 2019).

6.3 Reflections and Implications for Further Research

During the analysis it became clear that the thesis could have benefited from being narrowed down. Part 1, Part 2 and Part 3 in the literature review could all have been a focus area on their own. Because the descriptive case study is so broad it does, however, open up to new research possibilities.

A limitation to the study is the lack of information on sectors GPFG are invested in. If such information was more specific, it could be easier to review the real financial effect of weapons. But as GPFG is invested in 9,000 companies, this is impossible. There is also a lack of information on the effect of dialogue and active ownership. Therefore, the study of how GPFG can influence other companies relied on comments from interviewees and assumptions. This makes it challenging to draw any conclusions, and the subject should be researched further. Voting is also one of the important strategies NBIM has as active owners. However, I chose not to look at voting in the arms companies as it would be too time consuming. Still, looking at how NBIM votes could be subject of further research as to the effect NBIM has as owners.

Because GPFG is so different from other funds it is also difficult to compare them. That is why I chose not to conduct a comparative study. Still, there are similarities between GPFG and other funds, and I therefore found it useful to compare it to other Norwegian funds operating under the same values. If focusing on responsible investment it would be interesting to conduct a comparative study of GPFG and Storebrand.

It could also be useful to provide more research on how CSR and sustainability affect the financial return and whether they are pareto-optimal. Finally, the section about how GPFG is subjected to political influence was especially interesting and could have been a master thesis in itself. Although literature exclude GPFG as an exception, there are several theoretical aspects that can be applied to the Fund.

Epilogue

June 15, 2020, one week before I submit this thesis, the new evaluation of the ethical guidelines for observation and exclusion were published[15]. The report states that the Guidelines have worked well, but that the developments over the last 15 years call for a change in the guidelines and Norges Bank's mandate for responsible investment (NOU, 2020). I will not review all the changes in this epilogue, but I wish to comment on the changes made in relation to conventional weapons.

The commission suggests several changes in the product-based arms-criterion. The commission suggests that the relevant weapon types in the list that the Ministry of Finance mentions in the annual parliamentary report should be included in the guidelines. The commission further proposes to change the wording of the criterion so that it is both production and *development* of weapons are included, as well as weapons *and their central components* as this is in line with today's practice (NOU, 2020, p.14). The commission further suggests that *lethal autonomous weapons* and certain types of delivery platforms for nuclear weapons, such as submarines should be included (2020, p.14-15). The commission has concluded that the existing criteria on government bonds should not be changed. I find this problematic as this does not reflect on the Norwegian export control system (2020, p.15).

When it comes to the conduct-based criteria, I suggested that the wording should be changed to prevent room for interpretation. The commission, however, do not think it is necessary to change the wording. The commission suggest a new conduct-based criterion for sale of weapons to states involved in armed conflict where there is an unacceptable risk for use of weapons in military operations which includes serious and systematic violations of the humanitarian right. They add that the threshold for exclusion will still by high (NOU, 2020, p.15).

Based on the new evaluation it seems as if the overlapping consensus had weakened over the years, and as changes was made on the arms-related criteria the overlapping consensus was weakened by some of these investments. The revisions will strengthen the overlapping consensus, but I still suspect that GPFG will receive criticism for investments in arms producing companies in the future.

[15] Read more about the evaluation here: https://www.regjeringen.no/contentassets/86dac65c22384dda9584dc2b1a052a91/no/pdfs/nou202020200007000dddpdfs.pdf.

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Appendix 1 – Letter of Consent

«Statens Pensjonsfond Utland og Investeringer i Konvensjonelle Våpen»

Dette er et spørsmål til deg om å delta i et forskningsprosjekt hvor formålet er å se nærmere på om oljefondets investeringer i det kritikere definerer som konvensjonelle våpen bryter med internasjonale avtaler og interne retningslinjer. I dette skrivet gir vi deg informasjon om målene for prosjektet og hva deltakelse vil innebære for deg.

Formål

Dette prosjektet er del av en masteroppgave i studieprogrammet *Peace and Conflict studies* ved Universitetet i Oslo. Formålet med denne oppgaven er å se nærmere på om oljefondets investeringer i det mange definerer som konvensjonelle våpen er ansvarlige investeringer. Arbeidsspørsmålet mitt er: *Bryter Statens Pensjonsfond Utlands investeringer i bedrifter som produserer konvensjonelle våpen med internasjonale avtaler eller interne retningslinjer?*

Tidligere forskning på *Corporate Social Responsibility* (CSR), *Socially Responsible Investments* (SRI) og *organisasjonsteorier* vil forme rammeverket til oppgaven og gi grunnlag for analysen. For å kunne analysere og diskutere om SPUs investeringer bryter med internasjonale avtaler og interne retningslinjer vil intervjuene vil bli brukt som supplementerende empirisk data i tillegg til den dataen som allerede finnes i form av rapporter o.l. Disse intervjuene vil være viktige for å kunne forstå hvorfor investeringene til SPU kritiseres, og hvorfor investeringene kan forsvares.

Hvem er ansvarlig for forskningsprosjektet?
Statsvitenskapelig institutt ved Universitetet i Oslo er den ansvarlige institusjonen for prosjektet.

Hvorfor får du spørsmål om å delta?
Du blir bedt om å delta i dette forskningsprosjektet fordi ditt yrke eller din kunnskap innad dette forskningsfeltet gjør deg relevant for oppgaven. Dette er opplysninger jeg har mottatt av andre personer innen dette forskningsfeltet.

Hva innebærer det for deg å delta?
Hvis du velger å delta i prosjektet, innebærer det at du deltar i et intervju. Det vil ta deg ca. 45 minutter. Intervjuet inneholder spørsmål om Statens Pensjonsfond Utland, investeringer i konvensjonelle våpen, og etiske retningslinjer. Dersom jeg får samtykke av deg ønsker jeg å ta lydopptak av intervjuet.

Det er frivillig å delta
Det er frivillig å delta i prosjektet. Hvis du velger å delta, kan du når som helst trekke samtykke tilbake uten å oppgi noen grunn. Alle opplysninger om deg vil da bli anonymisert. Det vil ikke ha noen negative konsekvenser for deg hvis du ikke vil delta eller senere velger å trekke deg.

Ditt personvern – hvordan vi oppbevarer og bruker dine opplysninger

Vi vil bare bruke opplysningene om deg til formålene vi har fortalt om i dette skrivet. Vi behandler opplysningene konfidensielt og i samsvar med personvernregelverket.

- De eneste som har tilgang til personlig data er meg og min veileder.
- For å sikre at uvedkommende ikke har tilgang til denne dataen vil jeg erstatte navnet ditt og kontaktdetaljer med en kode, dersom det ønskes. Dette vil videre lagres adksilt fra øvrige data. Datamaterialet vil bli lagret på en beskyttet server som kun jeg har tilgang til.

Deltagere vil kun kunne gjenkjennes i publikasjonen dersom vedkommende selv ønsker det. Dersom vedkommende ikke ønsker å bli gjenkjent vil jeg kun inkludere informasjon som ikke kan avsløre personens identitet slik som yrke og alder. Hvilke opplysninger som vil eller ikke vil publiseres er opp til deltager selv.

Hva skjer med opplysningene dine når vi avslutter forskningsprosjektet?
Prosjektet skal etter planen avsluttes 01.01.2022. Etter at prosjektet er fullført vil all data som inneholder personlig informasjon bli slettet. Dette inkluderer lydopptak.

Dine rettigheter
Så lenge du kan identifiseres i datamaterialet, har du rett til:
- innsyn i hvilke personopplysninger som er registrert om deg,
- å få rettet personopplysninger om deg,
- få slettet personopplysninger om deg,
- få utlevert en kopi av dine personopplysninger (dataportabilitet), og
- å sende klage til personvernombudet eller Datatilsynet om behandlingen av dine personopplysninger.

Hva gir oss rett til å behandle personopplysninger om deg?
Vi behandler opplysninger om deg basert på ditt samtykke.

På oppdrag fra *Universitetet i Oslo* har NSD – Norsk senter for forskningsdata AS vurdert at behandlingen av personopplysninger i dette prosjektet er i samsvar med personvernregelverket.

Hvor kan jeg finne ut mer?
Hvis du har spørsmål til studien, eller ønsker å benytte deg av dine rettigheter, ta kontakt med:
- *Universitetet i Olso* ved Helge Hveem (helge.hveem@stv.uio.no) eller Andrea Sagdahl (andrsagd@student.sv.uio.no).\
- Vårt personvernombud: Roger Markgraf-Bye (personvernombud@uio.no)
- NSD – Norsk senter for forskningsdata AS, på epost (personverntjenester@nsd.no) eller telefon: 55 58 21 17.

Med vennlig hilsen

Prosjektansvarlig
(Helge Hveem)

Student (Andrea Sagdahl)

Samtykkeerklæring

Jeg har mottatt og forstått informasjon om prosjektet *Statens Pensjonsfond Utland og Investeringer i Konvensjonelle Våpen*, og har fått anledning til å stille spørsmål. Jeg samtykker til:

- ☐ å delta i et intervju
- ☐ at opplysninger om meg publiseres slik at jeg kan gjenkjennes (med navn og yrke – hvis avtalt
- ☐ at det blir gjort lydopptak under intervjuet

Jeg samtykker til at mine opplysninger behandles frem til prosjektet er avsluttet, ca. 01.01.2022

(Signert av prosjektdeltaker, dato)

Appendix 2 – Interview Guides

The interviews were conducted in Norwegian. Therefore, the interview guides in this appendix is in Norwegian. If a translation of the interview guides is wanted, please send a request per e-mail.

Interview Guide Respondent #1

1. Hvordan operasjonaliserer dere konvensjonelle våpen?

2. Hvorfor velger dere å anbefale uttrekk fra noen våpen bedrifter, observasjon av andre bedrifter, og ingen handling når dere gjelder andre?

3. Hvordan har dere kommet frem til innstramningene dere har i dag?

4. Hvordan forholder dere dere til de internasjonale avtalene som er signert av oljefondet og Norge når dere skal gi NBIM anbefalinger?

5. Til hvilken grad mener dere det er finansielt lønnsomt å forbli i våpenproduserende bedriftene?

6. Til hvilken grad mener dere politikken påvirker hvordan etikkrådet setter retningslinjer?

Interview Guide Respondent #2 and #4

1. Hvilke ansvarsområder har du innenfor selskapet, spesielt i forhold til det tema vi skal snakke om?

2. Kan du beskrive hvorfor Socially Responsible Investment (SRI) er viktig i deres investeringsstrategi? Når ble SRI først innsatt og hva var motivasjonen?

3. Hvordan har dere kommet frem til de innstramningene dere har i dag?

4. Hvordan har dere kommet/kommer dere frem til hvilke selskaper dere skal være investert i og ikke være investert i, særlig når det gjelder bedrifter involvert i konvensjonelle våpen? Er dere investert i noen selskaper som produserer konvensjonelle våpen i dag?

5. Hvordan forholder dere dere til internasjonale avtaler, regler og retningslinjer slik som Global Compact og Arms Trade Treaty?

6. I hvilken grad, og på hvilken måte, mener dere at dere kan påvirke bedriftene dere har investert i?

- Noen har sagt at det er vanskeligere å påvirke våpenselskaper, mens andre sier at det er desto viktigere. Hva mener du om dette?

7. Hva mener dere om Oljefondet (SPU) og dets investeringer i bedrifter knyttet til konvensjonelle våpen?

8. Hva mener dere om Oljefondets nåværende retningslinjer? Hvordan skiller disse seg fra deres retningslinjer?

9. Hvordan ville det vært for dere dersom Oljefondet ble strengere?

10. Tror dere det er en forskjell mellom dere som privat fond og oljefondet som statseid fond? Hva er i så fall disse forskjellene og hva skyldes de?

Interview Guide Respondent #3

1. Hvilke ansvarsområder har dere innenfor selskapet, spesielt i forhold til det tema vi skal snakke om?

2. Hvordan jobber dere med SPU? Kan du fortelle meg litt om samspillet mellom dere og NBIM?

3. Hva mener dere om viktigheten av Socially Responsible Investment (SRI) og Corporate Social Responsibility (CSR) i forvaltningen av oljefondet?

4. Investeringene i bedrifter som produserer konvensjonelle våpen, særlig Raytheon, har fått mye kritikk i media. Hva mener dere om denne kritikken?

5. I hvilken grad mener dere politikk påvirker investeringsbeslutninger?

6. Dere har satt opp et utvalg som skal se på etikkrådets retningslinjer og om det bør endres. Hva er grunnen til at dere gjør det akkurat nå?

7. Hva vil være positivt og hva vil være negativt dersom fondets retningslinjer blir strengere?

8. Hvordan tror dere oljefondet må forholde seg annerledes til SRI og politikk enn private pensjonsfond?

Interview Guide Respondent #5

1. Kan du først kort si litt om hva din jobb er hos Fremtiden i Våre Hender?

2. Kan du si litt om hva Fremtiden i våre hender mener om oljefondets investeringer i selskaper som produserer konvensjonelle våpen?

3. Hvilket ansvar mener dere at Norges Bank utover retningslinjene til etikkrådet? Mener du at de har et selvstendig ansvar?

4. Hvordan mener dere at disse investeringene bryter internasjonale avtaler? Selv mener de at de ikke bryter det som står og argumenter som OECD holder ikke da dette er frivillige retningslinjer.

5. Til hvilken grad tror du at å trekke seg ut av alle våpenselskaper kan bli oppfattet som politisk?

6. Hvordan tror du for eksempel NATO vil oppfatte det dersom oljefondet utelukker alle våpenselskaper?

7. Nå når oljefondet er investert i et selskap har de en viss mulighet til å påvirke det selskapet, og den muligheten mister man jo når man selger seg ut. Hva mener du om dette?

8. Til hvilken grad tror du at sånn oljefondet investerer i dag har legitimitet i befolkningen i Norge, og tror du å ekskludere våpen vil ha støtte i folket?

9. Hvis de skal endre retningslinjene, hva bør de endre på?

10. Til hvilken grad tror du media påvirker fondets beslutninger?

Interview Guide Respondent #6

1. Kan du kort si noe om din rolle i Norges Bank?

2. Kan du si noe om viktigheten av Corporate Social Responsibility (CSR) og Socially Responsible Investment (SRI) i deres investeringsstrategi? Har dette endret seg etter at NBIM først begynte å fokusere på det?

3. Hvordan avgjør dere hvilke bedrifter som produserer konvensjonelle våpen dere skal investere i og hvilke dere ikke skal investere i?

4. Til hvilken grad mener dere at det er finansielt lønnsomt å være investert i selskaper som er knyttet til konvensjonelle våpen?

5. Hva avgjør hvilke selskaper dere skal ha dialog med og ikke? Kan du si noe om utfordringene med å være aktiv eier i 9000 selskaper?

6. Hvor mye påvirkningskraft tror dere dere har når det gjelder å legge press på selskaper dere er investert i? Hvilken strategi har størst påvirkningskraft?

7. Hvordan forholder dere dere til internasjonale avtaler (som ATT og UNGP), interne retningslinjer og etikkrådets anbefalinger? Hvordan forholder dere dere til FNs bærekraftsmål?

8. Kan dere se et ansvar som går utover de etiske vurderinger som gjøres av etikkrådet?

9. Hva ville skjedd dersom dere skulle trukket dere ut av alle våpenselskaper eller våpenselskaper som muligens produserer våpen eller nøkkelkomponenter til våpen?

10. Hva tror du skiller private fond som Storebrand og offentlige fond som SPU? Hvordan påvirker dette sett i sammenheng med investering i produksjon av konvensjonelle våpen?

11. Hvis du ser bort fra finansiell avkastning, hva påvirker beslutningene deres i størst grad når det gjelder ansvarlig investering?

Appendix 3 - List of Documents

The list contains the most used primary documents in the analysis.

Document	Focus area	Relevance for thesis
Amnesty (2019, 9 September). Arms companies failing to address human rights risks. *Amnesty International.*	The document is an internet article. The article discuss how major arms companies are not undertaking adequate human rights due diligence. The article focusses on the 22 companies Amnesty contacted and asked to explain how they meet their responsibilities to respect human rights.	The document is used to exemplify how arms companies, including companies GPFG is invested in, does not conduct proper due diligence. It is used to discuss whether the investments are in accordance with the UNGP. It therefore supplements my discussion with relevant examples.
ATT (2014, 24 December). The Arms Trade Treaty. *New York.*	The document is an international treaty. The document is 12 pages long. ATT is a multilateral treaty that regulates international trade in conventional weapons. The treaty consists of 28 articles.	The treaty is ratified by Norway and it is used to discuss whether GPFG's investments in arms producing companies is in accordance with the Fund's international framework. Although ATT does not apply to investors, GPFG has been criticised for not being in accordance with ATT, thus not reflecting Norwegian norms. This makes it highly relevant for this paper.
Aziz, K., Solbrække, J. & Harlem, M. (2019, 4 September). Til Etikkrådet for statens pensjonsfond utland (Etikkrådet). *ICJ-Norge.*	The document is a letter from International Commission of Jurists (ICJ) to the Council on Ethics. The letter criticises the Council's decision not to exclude arms companies whose weapons are tied to attacks against civilians in Yemen.	The document provides arguments to the analysis of GPFG's international framework. It especially links the investments to UNGP, ATT and the Ethical Guidelines.
Elbagir, N., Abdelaziz, S. & Smith-Spark, L. (2018, 9 August). Made in America. *CNN.*	The document is a report formed as an article from CNN. The article gives insight to CNN's investigation of US-made bombs connected to attacks killing civilians in the Yemen conflict.	The document is used to provide an example of that GPFG is invested in arms companies whose weapons are directly tied to violations of human rights. It serves as a foundation for discussing whether the investments have overlapping consensus.

Etikkrådet (2020). *Etikkrådet for Statens pensjonsfond utland Årsmelding 2019.*	The document is an annual report from the Council on Ethics, consisting of 48 pages. The annual report assesses the Council's work over the last year (2019), such as the work under the different criteria.	The document is used to assess the Council's work on conventional weapons and review the recommendations made under the different criteria.
. Foss, A. B. (2018, 20 September). Nye bevis avslører massedrap med Raytheon-bomber. *VG.* Foss, A. B. (2019, 19 July). De lager bomber brukt mot Jemens sivile – nå har Oljefondet tatt selskapet inn i varmen. *VG.*	The documents are news articles from the Norwegian newspaper, VG. The articles look at GPFG's investments in companies linked to the bombings of civilians in the Yemen war.	The articles provide empirical examples of "spotlight theory" and how social stakeholders in Norway regard these investments as unethical. It therefore serves as an argument for a weakened overlapping consensus in the discussion.
Finansdepartementet (2019). *Statens pensjonsfond 2019.* (Meld. St. 20 (2018-2019)	The document is an annual report from the Ministry of Finance to Stortinget. The document is 123 pages long. It shows the results and assessments of the management of GPFG in 2018. It discusses several important subjects in the development of strategy for investments. It also explains the work with responsible investment.	It is used to show the political entrenchment for how the fund shall not have political goals.
KLP (2019, 13 June). *Guideline for KLP as a responsible investor* (6).	The document is 8 pages long and explains the guidelines ensuring that KLP is a responsible investor and owner. It also gives an overview of the international agreements KLP follows.	As I compare GPFG's guidelines to other investors' guidelines, I use the document as empirical data for comparison.
Lovdata (2005). Lov om straff (straffeloven) (LOV-2005-05-20-28).	The document is a legal document on legislation for Norwegian Penal Code.	The Penal Code is used to assess whether GPFG breaks the Penal Code, or not, by investing in conventional arms industry.
Lovdata (2010). Mandat for forvaltningen av Statens pensjonsfond utland (LOV-2005-12-21-123).	The document is a legal document. The document is the legislation for the Management Mandate for GPFG.	The Management Mandate for GPFG is used to assess whether GPFG violates Norwegian law by investing in conventional arms industry.

Lovdata (2014). Retningslinjer for observasjon og utelukkelse fra Statens pensjonsfond utland (FOR-2004-11-19-4997).	The document is a legal document. It is the legislation for the Guidelines for observation and exclusion from GPFG.	The legislation is used to assess whether GPFG's investments in conventional arms industry violates the Fund's ethical guidelines.
Natvig, K. S. & Vestvik, R. A. (2019). *Oljefondet ut av Våpenindustrien: Hvorfor og Hvordan.*	The document is a report provided by Framtiden I våre hender, Norwegian People Aid, Save the Children and Changemaker. The document is 36 pages long. The report argues that GPFG should exclude all conventional weapons. They divide the arguments into ethical arguments, juridical arguments, financial arguments and security policy arguments.	The report serves as an argument for why there is reason to assess whether the overlapping consensus is weakened by investing in conventional arms industry. It provides the survey from Norstat which indicates that most Norwegians does not want GPFG to be invested in weapons. It also functions as an argument for NGO shaming under "spotlight theory". Finally, the report provides several arguments for why weapons should be excluded from the Fund which serves as discussion points in the analysis.
NBIM (2018a, 5 September). *The Sustainable Development Goals and the Government Pension Fund Global.*	The document is a report, 12 pages long. The report explains how NBIM integrates the Sustainable Development Goals in their investment strategy. It explores the economic context of the SDGs and the role institutional investors may play in achieving the goals.	The report shows how GPFG implement SDGs in their investment strategy, thereby exemplifying how they focus on sustainable investment and intergenerational justice. It serves as an argument for why conventional weapons can jeopardise the SDGs and therefore the goal of absolute return.
NBIM. (2020a). *Government Pension Fund Global Annual Report.* (report 22)	The document in an annual report. The document is 168 pages long. The report reviews the result, how the fund is invested, strategies and NBIM's work for the last year.	The annual report is used as a review of how the Fund is invested, work on active ownership, results and general information on NBIM's conduct.
NBIM. (2020b). *Responsible Investment* (report 6).	The document is an annual report of NBIM's responsible investment. It is 104 pages long. The report shows NBIM's work on responsible investment in 2019. The report explains standards for responsible	The annual report is used to provide empirical data on NBIM's investments strategy used to discuss voice and exit. The strategies are used to discuss the degree of influence GPFG has on arms companies.

	investment, expectations to other companies and strategies for active ownership.	
NOU (2003). Forvaltning for fremtiden – Forslag til etiske retningslinjer for Statens petroleumsfond. (NOU 2003: 22). *Regjeringen.*	The document is 221 pages long. The document is the report from the Graver commission. The report suggests ethical guidelines for GPFG. The report assess why ethical guidelines are needed, the importance of overlapping consensus, and ethics in the Fund. It discusses who GPFG has an ethical commitment to, and the basis for exclusion and observation.	The document is used to define overlapping consensus. Further it is used to show the basis for the ethical guidelines for exclusion and observation. This is important to discuss whether the guidelines ensure overlapping consensus today or not. Further, the document assesses the effect NBIM's active ownership can have on other companies, which is used to discuss the influence they may have on arms companies.
OECD (2011). *OECD Guidelines for Multinational Enterprises.* OECD Publishing.	The document is a publication consisting of 95 pages. The Guidelines establish that firms should respect human rights in every country in which they operate. It also states that companies should have appropriate due diligence processes in place to ensure this happens.	The OECD Guidelines are ratified by Norway and it is one of the ground stones in GPFG's responsible investment strategy. It is therefore used to analyse whether GPFG weakens the overlapping consensus by violating the OECD guidelines.
OHCHR (2011). *United Nations Guiding Principles on Business and Human Rights.* United Nations Office of the High Commissioner for Human Rights, New York and Geneva.	The document is a publication consisting of 42 pages. The publication is of the Guiding Principles on Business and Human Rights (UNGP). The UNGP consists of 31 principles. The principles consist of three pillars; the state duty to protect human rights, the corporate responsibility to respect human rights, and access to remedy for victims to adverse impacts.	The UNGP is ratified by Norway and GPFG is expected to follow them in order to invest responsibly. Therefore, UNGP is used to assess whether GPFG weakens the overlapping consensus by violating the UNGP, thus international agreements. An important aspect here is due diligence which serves as a point of discussion.
Regjeringen (2015, 12 January). Retningslinjer for eksport av forsvarsmateriell.	The document shows the Norwegian guidelines for export of defence material. It also provides a definition of conventional weapons.	The document is used to provide a definition of conventional weapons. It also serves as a way of analysing if the GPFG's institutional framework are in accordance with Norwegian norms and values.

Storebrand (2019). *Annual Report 2019: Sustainable Solutions and Investments.*	The document is an annual report, 232 pages long. The report assesses the work Storebrand has done the last year. It especially focuses on responsible investment; their strategies and achievements.	The document provides insight to Storebrand's investment conduct. I use it to compare Storebrand to GPFG with focus on responsible investment, such as focus on SDG's and SRI-strategies.
Stortinget (2018). *Skriftleg spørsmål fra Kari Elisabeth Kaski (SV) til finansministeren* (Meld. St. nr. 15:2092).	The document is a written question from politician Kari Elisabeth Kaski (SV) to the Minister of Finance regarding the investments in Raytheon. In the letter, Kaski asks if it is acceptable to invest in arms companies contributing to war and if it is necessary with a new assessment of the investment practice and GPFG's ethical guidelines.	The written question is used to shed light on that the investments in arms industry has also been questioned by politicians, not just NGOs and media. It also provides arguments used to discuss why the overlapping consensus may be weakened.
UN Human Rights Council (2019, 2 October). Yemen: Collective failure, collective responsibility – UN expert report. *United Nations General Assembly.* Retrieved	The document is a press release from the Group of International and Regional Eminent Experts on Yemen. It provides an overview of a UN report on Yemen which, and claims that war crimes possibly have been committed by various parties. They criticise the parties for lack of accountability and urges States to refrain from providing arms that could be used in the conflict.	This document is used as an empirical example that weapons from companies GPFG has invested in may be used to commit war crimes. It therefore serves as a discussion point for why the overlapping consensus is weakened and how the investments can be in violation of the Fund's ethical guidelines.
UN Office for Disarmament Affairs (2018). *Securing Our Common Future. An Agenda for Disarmament.* United Nations, New York.	The document is an agenda for disarmament consisting of 87 pages. The document provides an overview of how the world has changed, especially in relation to conflict, war and weapon technology. The document therefore argues that a disarmament agenda is necessary.	The document is used to exemplify how investments in arms industry might go against sustainability, especially in relation to the SDGs. The document provides a detailed overview of how weapons hinder reaching the SDGs, and it therefore serves as an argument in the discussion of whether the investments in arms weakens the overlapping consensus.