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Managing public value conflicts – Institutional strategies and the greening of public pension funds

Monika Berg [a,*], Jan Olsson [b]

[a] Sociology Department, Örebro University, Sweden
[b] Political Science Department, Örebro University, Sweden

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ABSTRACT

Greening public organizations demands the acknowledgment and reconciliation of tensions and conflicts between core values. This is a challenge that public pension funds have come to face as the call for sustainability has reached the finance sector. Building on the value pluralism debate and institutional theory this article provides a theoretical elaboration of strategies for managing value conflict in public organizations, discussing how value conflict management may promote or inhibit institutional change. The empirical analysis explores how sustainability-related value conflicts are managed within Swedish public pension funds. Political goals and ideals of sustainable finance are pushing funds to promote sustainability through their investments, thus, to consider and promote further values than financial return. Previous research has mainly focused on the financial profitability of sustainability concerns. This study shows that economic value calculation remains the dominant approach within funds, downplaying any conflict between environmental and financial goals. However, to maintain institutional legitimacy under increasing external pressure, the funds have implemented complementary strategies, such as organizational separation of value-related tasks, and different principles for prioritizing value-based actions. The funds thereby avoid ethical reasoning which they fear would lead to subjectivity. In conclusion, the implications for organizational change are discussed.

1. Introduction

Value pluralism within public organizations has been discussed for a long time (Long, 1949) but has more recently been acknowledged as a major challenge to public administrations (De Graaf, 2015; de Graaf et al., 2016; Overeem & Verhoef, 2014; Spicer, 2014). The value complexity of public management has intensified owing to serious environmental and social problems that invoke decisive policy actions. Climate change is underway, and the loss of biodiversity occurs at a remarkable speed, causing tensions in societies and economies. It is increasingly acknowledged that sustainable development goals need to be addressed on a broad scale and accounted for by all sectors of society (Boström et al., 2018). Green transformation not only requires sustainability values to be translated into authoritative public policy goals but also to be infused into the daily work of public organizations (Berg 2021; Hysing & Olsson, 2018; March & Olsen, 1996; Selznick, 1957).

The call for sustainability has also reached the financial sector. Sustainable finance is an increasingly important trend among investors and in the business community in general, denoted by scholars as a "new paradigm" and has been conceptualized as "a *sustainable value creation* framework, within which all social and environmental costs and benefits are to be explicitly accounted for" (Fatemi & Fooladi, 2013, p. 101). Sustainable finance has attracted significant attention from scholars (Alshater et al., 2021; Cunha et al., 2021; Ferreira et al., 2016). It has been framed as an essentially contested concept, just like sustainable development, characterized by conceptual ambiguity, value tensions, dynamic change, and implementation challenges (Dimmelmeier, 2021; Jacobs, 1999). Public pension funds are part of this sustainable finance trend, but are also put under pressure from national governments, international conventions, and institutions such as the EU to not only prioritize economic return but also live up to political goals and standards of sustainability (Jansson et al., 2014; Richardson, 2009; Schütze & Stede, 2021; Sethi, 2005; Sievänen et al., 2017). The EU taxonomy is but one of the recent governance initiatives to promote sustainable investments.

This development underscores that central theoretical questions in the value pluralism debate require attention also within financial management, such as: How do public organizations seek to manage

* Correspondence to: Örebro University, HumUS, 70182 Örebro, Sweden.
E-mail address: monika.berg@oru.se (M. Berg).

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increasing value complexity? Is instrumental rationality possible and, if so, by what strategies and means (Spicer, 2014; Weber, 1978)? Previous research on value conflict management, both within sustainable finance and the value pluralism debate, has mainly focused on instrumental rationality in terms of goal achievements and performance rather than on *how* conflicting values are balanced through management practices (Alshater et al., 2021; Cunha et al., 2021; De Graaf, 2015; de Graaf et al., 2016; Ferreira et al., 2016; Spicer, 2014). Due to the strong focus on the business case for sustainability, there is a lack of research on how conflicts and tensions between values are managed within the organization of public institutional investors (Cunha et al., 2021). Such studies are important to uncover processes of institutional change.

This article aims to explore how value conflicts are managed within Swedish public pension funds. How are tensions between different values perceived and managed? What can this tell us about institutional abilities and challenges in promoting sustainable finance and investments? In the theoretical section, we distinguish different organizational strategies for handling value conflicts, including how these strategies relate to institutional change. The theoretical framework builds on insights from the value pluralism debate in combination with institutional theory. Institutional insights on how value tensions are avoided or resolved within organizations and their consequences provide important contributions to the sustainable finance debate, not least by illustrating the limits and maintenance of instrumental rationality. The article also makes a contribution to the value pluralism debate, in which there are relatively few systematic empirical studies on value conflict management and scarce theorization on the processes of value change (Hartley et al., 2017; Jørgensen & Vrangbæk, 2011). Most notably, the emphasis within the value pluralism debate has been on process values, like the rule of law and transparency, while limited attention has been paid to how substantial value conflicts are managed and which values that conflict (de Graaf & Paanakker, 2015; De Graaf, 2015).

The Swedish pension system can be classified as a prototypical case (Rose, 1991, p. 459) suitable for theory testing because the Swedish Government has for a long time had high demands on their funds to take sustainable development goals seriously, while the economic return is still stated as the overarching goal. Since there is increasing attention to different values, most notably environmental sustainability, within funds (Sievänen et al., 2017), the case is suitable for exploring and elaborating on the relationship between value conflict management and institutional change. The case can thus provide insights into the sustainable finance challenge of public pension funds more generally in the coming years. To the value pluralism debate, public pension funds are highly interesting study objects, considering their tradition of narrowly focusing on economic returns and their current widened responsibility for sustainability goals.

2. Value pluralism and conflicting values in public administration

In research on value conflict management, theoretical arguments have been made over the years on how value conflicts are and can be managed. Due to the dominant ideal of instrumental rationality (Weber, 1978), a key strategy has been to use economic strategies and methods, such as cost-benefit analysis, to make values comparable, thus making it possible to balance different values (Simon, 1997/1947). However, there are also other means by which organizations can manage value conflicts. Value conflict management may explicitly address value dilemmas, but it may also serve to avoid or circumvent the conflict or even obscure it (Berg, 2021). Therefore, it is important to consider how institutional rules, norms, and practices tend to shape value-conflict management. Drawing on insights from the value pluralism debate (Stewart, 2006; Thacher & Rein, 2004) and institutional theory (Olsson, 2020), we expound five main ways of managing value conflicts: separation of values, economic value calculation, cycling of values, situated ethical reasoning, and leaving it to the market. These strategies are elaborated below and constitute the analytical framework of this study.

2.1. *Separation of values*

Separation means that different values are accounted for in different parts of the public organization ("firewalls"), visible in the sectorial structure of welfare states (Stewart, 2006; Thacher & Rein, 2004). This can be perceived as a strategy for both specialization and conflict avoidance. New values have often been accommodated through new agencies, which has generally been the case with environmental issues, that is, through the establishment of environmental protection agencies. However, separation as a way of handling value conflicts may also be applied within organizations when one group is given the task of accounting for a particular value, such as sustainability or equity, while the rest of the organization continues to focus on its core values. The separation of values is particularly useful for what Philip Selznick has called, "precarious values" that need to be safeguarded since they are not entrenched in the organization's core commitments or may even be agoniztic to them (Selznick, 2008, p. 26). Separation is a way of handling value conflicts without assuming commensurability or explicitly prioritizing one value over the other. Separation may function as a justification of value priorities that do not "deny the validity of the values and principles that are neglected, nor [does it] rely on any particular view on how those values and principles should be balanced against others" (Thacher & Rein, 2004, p. 475). An obvious limitation of the separation strategy is that the interrelationship between different values is not explicitly addressed, and some values may be constantly undermined by other values.

2.2. *Economic value calculation*

Economic value calculation is a core strategy within instrumental rationality. Ideally, instrumental rationality requires a clearly specified goal and fact-based reasoning about alternatives that may fulfill the goal. The best choice is the alternative that best fulfills the goal. In the context of value pluralism, a clear preference order is beneficial; that is, value hierarchization, such as economic return as the overarching goal in investment decisions. A commonly used rationalist method is cost-benefit analysis (CBA), which assumes the commensurability of values based on the idea that all values may be reflected through economic measures. A similar method is to borrow utility surfaces or indifference curves from the toolbox of economics (Simon, 1947/1997, p. 82). On the one hand, CBA allows for the inclusiveness of different values in the calculation, but on the other hand, the economic language tends to undermine debate on the importance of different values (Fischer, 2009). A repeated critique of this approach is that its basic assumption of quantification of values tends to rule out the idea of intrinsic values and hierarchies of values, as well as the moral aspects of different alternatives (Nussbaum, 2000). Stewart (2006, 192) argues that dominating economic managerialism within public administration tends to crowd out (or overshadow) other values and that this approach may only produce pragmatic change and serves to avoid value-related disruption. It should be noted that, while this kind of technique is promoted as value-neutral, it tends to conceal the value priorities made (Bauman, 1994; Davies, 2017), particularly in a technocratic discourse in which value judgments are submerged into rational calculations (Fischer, 2009).

2.3. *Cycling value priorities*

The strategy of cycling value priorities means that a specific value is prioritized for a certain time at the expense of other values (Thacher & Rein, 2004). Thus, without explicitly stating that one value is more important than the other, or assuming commensurability, conflicting values can be prioritized in sequences. This strategy creates a temporary hierarchy that guides priorities and value decisions within the organization. For a public investor, this could, for instance, mean that compliance with human rights conventions is in immediate focus, while biodiversity may be focused on subsequently. In comparison to value separation, cycling grants more action space to the organization because it may choose the key values to be prioritized. However, there is a risk that the priority of some values may start a downward spiral for others (Thacher & Rein, 2004). If a public organization for a period focuses on efficacy and sets aside other important values, such as environmental values, trust in the organization may decline because public organizations are generally expected to account simultaneously for a set of values. As argued by Herbert Simon, the "bottleneck of attention means that we operate largely in a serial fashion: the more demanding the task, the more we are single-minded" (Simon, 1947/1997, p. 90). Thus, cycling may be necessary at the individual and organizational levels, but it also depends on the nature of the issue and the size and resources of the organization. Thus, large organizations usually have a good capacity to handle many issues simultaneously, but they likely require a complex organizational structure with value separation.

2.4. Situated ethical reasoning

In many situations, conflicting and deeply intertwined values may not be handled separately in a meaningful way and need to be considered simultaneously (Thacher & Rein, 2004). For this type of situation, ethical reasoning can be perceived as an appropriate strategy. What distinguishes this strategy is the active and continuing process of judging, prioritizing, balancing, and/or reconciling values. Situated reasoning acknowledges value pluralism and the need for context-sensitive consideration. This can entail many alternative ways of reasoning, such as considering established value hierarchies within the organization, ethical guidelines, and professional codes of conduct (de Graf et al., 2016; Stewart, 2006), as well as reasoning about difficult issues relating to different schools of ethics (Svara, 2013; Wolff, 2020). Situated reasoning is a reflexive process that is enabled and constrained by different institutional rules, norms, and practices. This involves active and explicit engagement with specific value conflicts. The process of situated reasoning involves the need to gather knowledge about the situation and to analyze and discuss the importance and likely consequences of different alternatives with regard to values and ethics (Lever & Poama, 2019). This strategy is quite demanding in terms of time and engagement from the involved staff and may, at worst, result in new tensions and conflicts rather than a common ethical understanding of the situation.

2.5. Leaving it to the market

According to the last strategy of leaving it to the market, the organization itself refrains from value judgments by adapting to market forces, such as letting the "customer" choose (Hausknost, 2014). One example is a system of private health insurance that involves protection from moral judgment by permitting the market to decide the level of care that different citizens receive, thus degrading the state-citizen relationship into a customer-supplier transaction (see Martinez, 2009, p. 16). We account for this strategy because many banks use this approach in their investment funds. Generally, ethical market-led funds either let people choose funds based on their ethical commitments, or the bank chooses ethical investment criteria based on the perception of market demand (Mackenzie, 1998). This strategy has limited relevance to our case since these public pension funds do not have customers who make choices between funds or indexes. However, if the funds themselves would downplay their active placement strategies and reduce their administrative costs by largely relying on some type of market index, this would be in line with the strategy of leaving it to the market.

Table 1 shows that the five strategies are distinct and different and can thus work as a comprehensive framework for empirical analysis.

2.6. Value conflict management and institutional change

In our elaboration of these strategies, an important feature was their impact on change since previous research within the value pluralism debate has paid little attention to this dimension. As the table summarizes, different strategies have different impacts on institutional change. The literature on institutional theory elaborates on how increasing value complexity can lead to gradual organizational change, but also trigger strategies of resistance that can maintain the status quo (Wagenaar, 1999). Resistance from parts of the organization can occur if new values and goals are perceived as threats to cherished institutionalized rules and norms. This may evoke strategies such as separation, which decouple old and new values, or interpretation of the new values in a way that allows them to be integrated into existing institutions, which economic value calculation may accomplish (cf. de Graaf & Van der Wal, 2017). Since several strategies make it possible for the organization to avoid value prioritization and judgment, increasing value complexity does not have to undermine institutional stability. New rules and norms can be added without removing any existing structures, creating a more layered organization (Mahoney & Thelen, 2010).

However, it is also argued in the literature that increasing complexity can result in gradual institutional change through institutional ambiguity in terms of "gaps" or "soft spots" between institutional rules and their enforcement and implementation. These gaps or soft spots can be seen as internal weaknesses of existing institutions from which change can emerge. Incremental changes can subsequently lead to more fundamental institutional change (Mahoney & Thelen, 2010) and a transition toward new rules, norms, and practices (Boström et al., 2018). In the case of public pension funds, this could, for instance, mean that economic return would cease to be an *overarching* goal.

When identifying the different strategies or functions of value conflict management within the organization, we seek to understand the extent to which the increase in value complexity has been resolved, has changed the organizations, or created tensions within them. In other words, the extent to which organizations and their institutional rationale have changed.

3. Case, methods, and materials

3.1. The public pension funds

Large-scale institutional investors managing pension funds have emerged in Anglo-American economies (Clark, 1998), and from around the turn of the century, there has been a move towards a global model of capitalized pension arrangements (Dixon, 2008). The continued growth of pension funds has changed the characteristics of global finance. Clark and Hebb (2004) have even called it a new stage of capitalism, where pension funds are powerful actors based on their large assets, collective share of financial capital, and substantial aggregation of beneficiary interest. As public pension funds are not in competition with each other, they have the potential to act collectively on behalf of their beneficiaries, which may be the entire population (Thamotheram & Wildsmith, 2007). Thus, funds have a joint interest in a stable economic system, which in turn depends on a livable healthy planet and a socially

Table 1
Strategies for managing value conflicts in public administrations.

Strategy of value conflict handling	Separation of values	Economic value calculation	Cycling of values	Situated ethical reasoning	Leaving it to the market
Main characteristic	Organizational separation	Goal-rational calculation	Temporary prioritization	Context-specific	Market allocation
Main ethical rationale	Value specialisation in organizational units	Integration of values into one utilitarian model	Focus on one value at the time	Reasoning open to many values and ethical views	Non-engagement
Potential weaknesses	Unclear relations between values make it difficult to re-negotiate be-tween them	Downplays unmeasurable values and moral judgments	Legitimacy crises since it is expected that public organisations handle multiple values	Demanding and sensitive to discursive domination or unresolved conflicts	Denouncement of moral responsibility
Impact on change	Avoids radical change by keeping values apart.	Favoring a prioritized goal at the expense of other goals and values	Can impact differently on change depending on which issue is prioritized	Potential for radical value change thanks to its openness and reflexivity	Decentralized value judgments prevent governed change

Sources: This table is developed by the authors, based on an elaboration of the work of Thacher and Rein (2004) and Stewart (2006).

and politically stable world. Pension funds increasingly position themselves as responsible investors and seek to integrate sustainability into their business strategies. Institutional actors are key to the development of sustainable finance (Cunha et al., 2021). The growing social and environmental concerns of pension funds are generally motivated as part of a long-term risk assessment, in which sustainable business is considered a safer investment (Sethi, 2005).

The Swedish public pension funds[1] that invest capital constituting the buffer in the Swedish pension system, AP-Funds, are since 2019 assigned to pay particular attention to how sustainable development can be promoted. When the National Pension Insurance Funds Act (2000:192), the law that governs the pension funds, was amended in January 2019 (Government Bill, 2017/18:271), emphasis was added that the public pension funds (AP1-AP4) should govern their assets in an exemplary manner through responsible investments and ownership. It was also added that specific consideration should be taken regarding how sustainable development can be fostered without compromising the overall return objective and risk judgments. In line with the amendments to the law, the funds now have common guidelines for exemplary management.

> “Integrating sustainability factors, such as environmental aspects, social aspects, and corporate governance aspects as well as ethical aspects into the operations, both in the Funds’ organization and in its asset management operations. Examples of goals and principles observed include the Global Compact, the UN’s global goals for sustainable development, and the Swedish parliament’s generational goal, which is the overarching goal for environmental policy and guides environmental work at all levels of society.” (AP Funds common core values, 2019-01-01, p. 1).

Considering the expanding economic power of public pension funds and their increasing duties and ambitions to take sustainability goals seriously they are interesting study objects to further the knowledge on value conflict management in public administrations as well as the development of sustainable finance.

3.2. Materials and method

This qualitative study has used different types of methods and sources. As argued by scholars specializing in researching values, qualitative research methods are ideal for studying values since “qualitative approaches hold benefits over quantitative approaches when it comes to capturing the more subtle and tacit aspects of values as they relate to tension, conflict, identities, expressions, practices, work and processes” (Espedal et al., 2022, p. 3). Since the 1st-4th AP-funds are all working under the same conditions, we base the analysis on empirical material from all four funds and their common Council on Ethics. There are at least two ways to identify someone’s values and ethical judgments (Blackburn, 2003). The first way is to ask them about it and hope that the response is sincere and accurate, and the other is to study their actual behavior, which may provide limited information about the motives but may reveal institutionalized practices and “implicit values” (Jelstad Løvaas, 2022, p. 16). We seek to combine these two approaches, but we also add a third approach in terms of considering external assessments of the study objects, such as evaluation reports from external organizations. These three approaches combined make methodological triangulation possible which serves to ensure good empirical validity (Erzberger & Prein, 1997).

The analysis is based on three types of empirical methods and sources, which were implemented in the following order: key actor interviews, document analysis, and observation studies. The study started with ten semi-structured interviews with 12 civil servants at the pension funds (two interviews contained two respondents). The respondents had strategic functions, such as heads of strategy, senior sustainability analysts, Secretary General of the Council on Ethics, and Chairmen of the Boards. Interviews were conducted between December 2019 and spring 2020. Due to the Covid 19 pandemic, some of the interviews were conducted through Zoom. The interviews lasted one hour or more. The interviews were designed to capture the value conflicts civil servants identified within the organization, their value judgments, and ways of handling different value conflicts, as well as the institutional and organizational rationales or factors shaping their judgments and the priorities made in the organization. Questions that captured the respondents’ experience of the development and increasing attention to sustainability presented storylines that lend themselves to the analysis of values, assumptions, and norms (de Graaf & Paanakker, 2022). The interviews were transcribed and thematically coded using NVIVO software. The codes were based on the theoretical framework in combination with emerging themes relating to changes, trends, and institutional practices, which allowed us to identify organizational and institutional aspects that have shaped the strategies for handling value conflicts within AP funds.

The second empirical step was document analysis to validate and complement the interview analysis. Since many documents are produced within this policy area, the document analysis had to be extensive, including Official Government reports and annual evaluations of the

[1] Since 2001, the public pension funds have been divided into six different funds called AP (*allmänna pensionsfonderna*) (AP1, AP2, AP3, AP4, AP6 and AP7). The public pension funds are public authorities but with a stronger independence than regular Swedish authorities. The funds are legally governed (The National Pension Insurance Funds Act, *AP-fondslagen* 2000:192) and their boards of directors are appointed by the government. The 1st – 6th public pension funds manage the assets from the public income pensions, approximately 1400 billion SEK (2017). Thus, taken together, they would be on the list over the 20 largest retirement funds 2019 (P&I, https://www.pionline.com/gallery/slideshow/worlds-20-largest-retirement-funds).

funds, annual reports and climate reports produced by the funds, annual reports from the fund's Council on Ethics, reports from external parties, and governmental bills. The document study employed a qualitative reading, focusing on information about motives and actions and discussions on sustainability and ethics. A retrospective perspective was also employed in the document analysis; that is, annual reports were analyzed over ten years, from 2010 to 2021, to verify the development indicated by the interviewees and achieve a richer understanding of them.

Third, we have made complementary observation studies of public presentations by the funds available on the Internet. Particularly relevant was the public hearing of the pension funds in the Finance Committee of the Swedish Parliament in 2022, which focused on the sustainability of their investments (Finance Committee, 2022).

While the primary data, the interviews, provide the foundation for the analysis, the three empirical sources enable triangulation of data, which helped us validate and deepen our empirical knowledge. The results from the interview study were largely confirmed by document and observation studies, which were important because the latter have the character of formal communication intended for key actors in the external environment, such as the national government, international organizations, and the market. While documents and observations give us formal, authoritative presentations and motivations, the interview data provides stories and the motivations behind the strategic work within the funds. Thus, data triangulation not only contributes valid empirical knowledge, but also helps build a comprehensive, nuanced picture of the study objects (Espedal et al., 2022).

4. Managing value conflicts within the AP funds

4.1. Separation – the initial strategy

Swedish AP Funds were relatively early in their adoption of environmental concerns. A critical starting point was the preparatory work of the directives for reorganizing the funds in 2001, which declared that the funds should make environmental and ethical considerations in their investments. The funds saw this as an indication of the direction they should take. It gave the funds a couple of decades to try out approaches and increase their competence before amendments to the law in 2019, emphasizing exemplary investments and attention to sustainable development.

There was initially an inter-organizational separation of values where sustainability concerns were assigned to a particular position within the organization, often as part of the communication side of the organization. The separation was deep-seated. The interviewees witnessed a much stricter separation between environmental and economic perspectives:

> [Respondent:] I remember the first sustainability meeting I went to, it must have been around 2010, it was not stockbrokers, financial analytics, it was sustainability people, and it was completely different. It was like night and day, they could hardly relate to each other.
>
> [Interviewer:] Another language?
>
> [Respondent:] A different language and a different approach. They did not look at the costs at all, the financial return, or what it would mean for the business with those parameters. Today, this is completely different.

Competence regarding environmental aspects was initially gained by external suppliers, but over the last few years, AP Funds have been in the process of integrating sustainability goals in all their segments. Today, as new fund managers or analysts are recruited, environmental competence is a key criterion. The main motive is that environmental factors have increasingly been considered relevant for societal development, which in turn affects financial analysis (Interview 5). There is a shift from separation to the integration of values, as financial analyses seek to incorporate the consequences of environmental degradation, new policy regulations, and so forth. This integration process is not unique to Swedish funds. It is a prerequisite when signing widely recognized UN principles for responsible investments (UN PRI). We return to the consequences of the integration later.

Despite the integration of sustainability values, separation remains a strategy in various respects. From an organizational perspective, the Council on Ethics continues as a separate organizational unit with its specific task of considering the ethical aspects of investments on behalf of the four funds. This unit also has a symbolic function, indicating that funds take sustainable development seriously. Another way to give specific attention to sustainable development as a separate priority is dedicated investments. Dedicated investments take their starting point in the UN's development goals. A few sustainable development goals (SDGs) are chosen. Investments are made that favor these goals and can make a difference in the market (i.e. not buying stock in an already existing solution). Such investments require research, have higher risk, and amount to relatively small investments. Thus, it constitutes a marginal piece and activity out of the entire investment portfolio. Nevertheless, they specifically address the particular concern of promoting sustainable development.

4.2. Economic value calculation

The main value conflict strategy within the organizations is economic value calculation. According to the law, sustainable development should be promoted without waiving the overall objective of economic return. This means that funds see sustainable investment as a sub-restriction on economic returns. However, according to the funds, this does not inhibit environmental considerations, since unsustainable practices will become increasingly reflected in prices thanks to regulations, technological development, changing consumer preferences, and so forth. Businesses that are not on their toes when it comes to sustainability issues are, therefore, considered to carry financial risk. This means that there is no perceived dilemma between environmental considerations and economic return. The funds move towards aligning their investments to the Paris Agreement on financial grounds. There is a strong reliance on the price mechanism and the market's ability to anticipate new risks and solutions. In other words, funds see no incommensurability problem that they must deal with, and sustainability is predominantly addressed through economic calculation.

Even in the Council on Ethics, concern for environmental values is motivated by economic rationality.

> "Pollination is an important ecosystem service that is necessary for the reproduction of plants. It enables around 35% of the global production of cultivated crops. In the US, honeybees are used for the pollination of around 80% of all plantations and are calculated to contribute 20 billion dollars to the American economy; it should be noted that the repellant and pesticides that are in focus have significant shares on the market and they probably also have had a big positive influence on the production of food globally" (Council on Ethics, 2018, p. 24).

This citation illustrates that ecological sustainability is analyzed through economic calculation and macroeconomic scenarios of anticipated consequences on the markets.

Funds' pragmatic rationalist strategies can be interpreted as a way of adapting instrumental rationality to the practical context of value complexity through incremental changes in calculative practice. One lead strategist explained the following:

> "when we judge the expected economic development and the expected economic return on different assets, the development of the pension system, then we have included climate scenarios /./ so it is in a sense the allocation between different categories of assets. Then,

at the next level, how should we allocate it within different categories of assets? And here we also take into consideration sustainability factors when we construct the composition: How much shall we have in industry A, industry B, and then different countries, where we use key figures related to sustainability as we have seen at that time, which have positive explanatory value when it comes to future return" (Interview 3)

However, living in a time of rapid change and uncertainty makes the calculation of economic value more difficult for funds. This demands creative thinking along new lines, making predictions increasingly difficult. This is well illustrated by the four funds' varying amounts of divestment in fossil fuel, even though all of them motivate their decisions on strict financial grounds, since this energy source is associated with increasing risks (Government Letter, 2020/21:130, p. 301). Thus, despite the same professional approach, there is room for different interpretations and calculations. The respondents differ in their views on the financial and symbolic value of divestment, such as the possibility of shaping others' investment behavior by "naming and shaming." However, none of the interviewees promoted divestment based on sustainability goals.

Thus, while rationality through economic calculation remains the dominant ambition of funds, its conditions tend to be undermined, which one interviewee expresses in this humble and drastic way:

"But to start thinking on how the pricing will change on the entire market, which business sectors that will benefit, and which sector that will be disadvantaged, and what that means. /…/ We have never had a scarcity of fresh air and water, so there are no conventional models that can help us quantify and elaborate on. What does the scarcity of air mean? How much for air? We have no pricing for this. Asset management asserts: What the hell! I cannot base my calculations on this! It is for free! So, it requires much courage, creativity, and timing so one does not go completely wrong' (Interview 9).

The respondents emphasized that their decisions were grounded in data, research, and economic analysis. As stated by the head of one of the boards, "Fund managers are quite mathematic; they do not like to just have ideas, because that is outside of their framework' (interview 9). At the same time, one of the strategists argue, "we cannot wait all the time, if we wait for the perfect information, we have waited too long, because then these things have been re-priced" (interview 4). Thus, one needs to act before risks and opportunities have materialized, for all to see. It is as much about spotting the winner based on the limited available data as trying to calculate the optimal investment in advance.

In summary, the dominant strategy of economic value calculation is challenging and increasingly demanding in a turbulent and uncertain societal context. This pushes the funds to incrementally develop their calculative practices and expand their meta-analysis on societal development.

4.3. *Cycling values*

The funds do not apply cycling of values as a strategy. However, they have different principles that guide sustainability-motivated choices and prioritization *between different environmental* aspects. The funds were initially "picking the low-hanging fruits" such as selling shares in industries that use child labor or produce landmines. This prioritization postponed more difficult challenges, such as large divestments in the fossil fuel industry. Businesses with limited economic returns and high environmental and social risks were easy to sell, but businesses with a low stock price and high earnings (P/E Ratio) were kept for the time being, with the motivation that selling them would not change anything on the ground, only stock changing hands. Another principle is to prioritize areas that were given less attention by other investors, and thus where the funds' efforts are deemed to have a greater effect (interviews 1 and 5). These prioritized areas help the funds to direct attention and engagement. Even though a fund may support an initiative such as an investor statement to minimize plastic, they only sign it if it is a focus area of the fund.

Furthermore, funds prioritize not only substantial but also procedural values through their choice of strategies. They increasingly employ more active ownership in terms of dialog, voting, and representation in nomination committees and boards. This is where Swedish funds now excel (McKinsey & Company, 2020). It is on such occasions that the funds see the possibility of making a difference, and it seems promising since the capital is gaining the contours of faces. The Secretary General of the Council on Ethics explains that the strategy to actively engage was initially questioned, but more investors follow suit.

"It is a long process for all organizations to build this culture and developing a safety in being active. To have a point of view and to dare expressing it and say: no this is what it looks like! Not everyone., all are not used to do this. Most are relatively. or, in other words, when I began with this some 20 years ago, it was faceless capital, and so it is to a large extent, still faceless capital. So, one has to be aware of that, and that a transition is going on, and I think many are struggling with this" (interview 1)

Thus, through principles of prioritization, the most efficient means of promoting sustainable development goals are sought.

4.4. *Limited situated ethical reasoning*

Situated ethical reasoning is something that the funds refrain from since ethics are associated with individual opinions (interview 1). One of the strategists expressed it in this way:' When one starts to mix ethical concerns with financial ones, then I believe there is a risk that things will not go well. My ethics will not be the same as yours' (Interview 4).

Even though situated ethical reasoning is not practiced by the funds, ethics are not dismissed altogether. In the Council on Ethics, a convention-based ethical approach is applied, which can be interpreted as deontological ethics (Svara, 2013) through adaptation to an established system of rules and norms (March & Olsen, 2006). This approach means that businesses that break international conventions signed by Sweden are red-listed. The motive for the convention-based approach is that it represents the ethics of the country rather than the ethics of the CEO (interview 6). However, it should be noted that even in a convention-based approach, there is room for interpretation, not least because conventions are formulated to regulate states rather than companies. This means that the Council engages in case-based reasoning where they consider the companies' responsibilities, intentions, inclination to change, and the severity of their violation of the convention, as well as if the company could be held legally accountable.

So far, AP Funds have only placed businesses on the red list based on the conventions signed by Sweden. The rest of the investment decisions, such as carbon-based energy, are based on financial risk analysis (interview 7). Thus, they are not made on an ethical basis, in line with the values of Swedish environmental goals. This is a consequence of the denial of conflicts between economic and environmental values. The Swedish Government has paid attention to this in its evaluation of the funds:

"The Government /./ wants to underscore that investments in fossil fuel energy, such as investments in companies whose market capitalization to a large extent consists of fossil assets that they plan to exploit, is not in line with the Paris Accord and the UN Climate Convention. It is the Government's opinion that the AP Funds ought to continue their work to make investments in line with the goals of the Paris Accord. /…/ It is positive that the Funds continue to improve their work and that Funds, according to McKinsey's study have come far within this area in comparison with other leading institutional investors globally. However, the first–fourth AP funds have stricter legal requirements when it concerns sustainability than other leading institutional investors and should therefore be expected to be a frontrunner within this area" (Skr, 2019/20:130, p. 44).

The government is thereby pursuing normative governance to make funds comply with environmental goals, even when they conflict with financial goals. This would mean that the funds need to engage in situated ethical reasoning. The government's position is that the move towards more value-conscious investments needs to continue and improve.

In sum, the difficulty of making well-calculated judgments in an increasingly complex and uncertain world provides an opportunity for situated reasoning regarding ethical investments. Political governance has also pushed for more active value judgments. However, the funds stick to what they are used to in making sense of reality: economic calculation in the form of consequence analysis and scenarios. Stewart (2006) points out that value judgments are often shaped by the dominant policy paradigm, in this case, instrumental rationality, which prioritizes certain values over others and confines the policy actors into a particular language that serves to give the paradigm a neutral status.

4.5. Leaving it to the market

The last strategy of leaving it to the market and thereby avoiding explicit value conflict management is not a relevant strategy for the funds in its pure form of letting customer preferences decide. Furthermore, the funds want to maintain and develop their professional role, not just follow some market indices, which means that they work along partly new lines of influencing companies and markets. However, from one perspective, the funds leave the ethical judgment to the market. When trying to price-in new requirements and risks, funds are sensitive to regulations, market mechanisms, and market norms. The concept of exemplary fund management plays a central role. What is considered exemplary fund management has changed over time, from strict financial fiduciary duty towards acceptance that the ethics and values of the beneficiaries could and should be accounted for in the investments (Jansson et al., 2014; Richardson, 2009; Thamotheram & Wildsmith, 2007). One interviewee expressed this as follows.

"It may be the case, hypothetically, that the price on coal goes up, but the likelihood that we shall invest in coal is not there because of that. And so, this is also a surrounding world in change, so the baseline or the yardstick tends to move. So, what was exemplary ten years ago is something else today. Before, one could maybe accept fossil fuel investments of some kind. Today, the acceptance and tolerance for that kind of investments is much, much lesser" (interview 10)

Such cultural changes become a part of the analysis when sustainability is included in the decision calculus, which determines how other financial actors are expected to behave and how the market will develop. Thus, normative changes in fund behavior are influenced by the market.

5. Empirical conclusion

In Table 2, the main empirical conclusions are summarized. We have seen that despite increasing value complexity, economic return remains the overarching goal, and economic value calculation is the main strategy of the public pension funds. The funds are confident that this strategy can dissolve value conflicts into well-balanced judgments for sustainable investment decisions. However, over time multiple complementary value conflict strategies have emerged within the organizations. This can be understood as a response to increasing external pressure to account for sustainability in investment decisions for political as well as financial reasons. Incremental institutional change occurs in terms of changing norms, filtered through increasingly complicated calculations and new practices of active ownership, and dedicated investments, as well as increasing talk about ethics and sustainable development.

Considering the increasing policy pressure, not least on the EU level, and the importance of institutionalized market standards of sustainable investments, the empirical results are likely generalizable to other public pension funds around the world, particularly countries where governments prioritize sustainability goals.

6. Concluding discussion

Building on previous research debates, this article elaborates on five organizational strategies and means for managing value conflicts in public pension funds. We have found that all these strategies are used in managing tensions and conflicts between different values, such as social and ecological sustainability and economic return. These strategies are not necessarily intentional ways of solving value conflicts but are organizational reactions to increasing value complexity in the context of

Table 2
Results in summary.

	Separation of values	Economic value calculation	Cycling of values	Situated ethical reasoning	Leaving it to the market
The main empirical results	Shift from stricter separation to the integration of sustainability values. Remain a strategy with the Council on Ethics and dedicated investments	The main method. Increased complexity and use of macro analytical judgments. Main goal: economic return.	Different principles guide prioritization when ethics or sustainability is accounted for, e.g. picking low-hanging fruits, active ownership through institutional collaboration	Ethical reasoning is avoided since it is perceived as subjectivism	Adaption to market norms (exemplary fund management), while also attempting to change them
Implications of the strategy	Avoids value conflicts and assures legitimacy by accounting for sustainability in separate activities.	Neglects value conflicts, focuses on the financial effects of sustainability	Motivates prioritized action, but also the inaction or lack of attention to other unsustainabilities	Increasingly complex investment judgments incorporate hidden ethical judgments, while explicit ethical reasoning is rejected	Adhering to market norms circumvents organizational responsibility, e.g. to divest. Potential to shape market norms in collaboration with other institutional investors.
Frequency of the used strategy	High to moderate	Very high	Moderate	Low	High in terms of norm adaption
Relevance of the strategy over time	Still important but no longer the main strategy	Continuously important (institutionalized goals and methods)	Important when prioritizing between different sustainability-motivated actions	Of continuously limited relevance	Continuous adaption to market norms

governance and inter-organizational relations (March & Olsen, 1996; Olsson, 2020). Over time, the number of strategies for managing value conflicts has increased within the funds, which mirrors the increasing external pressure and complexity. The use of multiple complementary strategies implies that they have implemented new means of working, which is an indication of institutional change. This study shows that increasing pressure on public organizations to account for additional values may lead to an increasing number of value conflict strategies within the organization, to manage upcoming tensions and to maintain organizational legitimacy (cf. Meyer & Rowan, 1977; Olsson, 2020).

The study indicates that while additional strategies are implemented, institutional stability is sought. The two strategies that are most prone to promoting institutional change are the least implemented: cycling and situated ethical reasoning. While funds have certain principles for prioritizing when engaging with sustainability, they do not engage in a sequential devotion to a specific value. Devotion to values other than financial returns is still considered a clear sub-restriction. Ethical reasoning is consciously avoided because the funds fear that this would risk lapsing their work into pure subjectivity. An additional sign of stability is that the dominant strategy to manage value conflicts is economic calculation, which seeks to integrate sustainability variables in the economic analysis and, in that sense, account for sustainability. Maintaining foremost attention on profitability is in line with the dominant trend in sustainable finance and investments (Alshater et al., 2021; Cunha et al., 2021; Ferreira et al., 2016) and indicates the continuing importance of instrumental rationality as a dominant institutional perspective.

However, this study goes beyond the dominant framework of instrumental rationality. By identifying and analyzing institutional strategies for managing value conflicts, it illustrates that different strategies that target sustainability also serve to maintain the dominant institutional rationale, for instance by avoiding tensions between different values. Incremental institutional change accumulates within the funds in terms of changing norms, filtered through increasingly complicated calculations that seek to account for sustainability, and new practices, such as more active ownership through dialogs and voting, and investments with specific attention to promoting sustainability. Furthermore, funds increasingly use the language of ethics and sustainable development in their reports and presentations, which likely influences their attention, thinking, and norms to some extent. This gradual institutional change is influenced by and influences the larger community of sustainable finance (Bikhchandani & Sharma, 2000; Cunha et al., 2021; Fatemi & Fooladi, 2013).

What can this tell us about institutional abilities and challenges in promoting sustainable finance and investments? First, organizations have different means of resisting value complexity. Value conflict strategies that avoid value judgments tend to involve additional organizational layers or separate functions and practices. The accumulation of such layers may produce institutional ambiguities or soft spots between formal rules, practices, and professional norms, which constitute possibilities for institutional change (Mahoney & Thelen, 2010). Second, the dominance of the economic value calculation and the profitability of sustainability indicate that the institutional and professional core is strong and stable. At the same time, increasing external complexity and pressure pose a challenge to financial calculations. Seeking to internalize too much complexity in calculations may indirectly integrate (generally conservative) value judgments and assumptions in the calculations. In other words, indirect ethical reasoning is not avoided since value judgments are subsumed in calculations. Cognitive psychology research shows that corporate financial officers (CFOs) are generally unable to predict the short-term future of the stock market (Kahneman, 2011; Tetlock, 2017). The standard notion is that investment and divestment decisions are strictly market-based, however, due to this difficulty and increasing complexity, there is always a risk for imitation and "heard behavior" which infiltrate the financial analysis (Bikhchandani & Sharma, 2000). Avoiding explicit value reasoning during times of rapid societal change is therefore not neutral (Spicer, 2014). Understanding the explicit and implicit values promoted by public institutional investors is essential for promoting sustainable finance and transformative change.

Future research should further investigate the premises of instrumental rationality within investment funds and the assumptions and value judgments made in increasingly complex economic calculations. The limited number of studies of this kind motivates more such studies in the future, which particularly focus on organizations with different institutional traditions. A major challenge in future studies is to get closer to the investment practices to study judgments relating to specific investment decisions, including interpersonal tensions and discussions. The material used in this study allow us to analyze the management level of the funds but did not allow us to analyze the judgments made in practice. While we did not identify explicit ethical or value reasoning it may take place in informal meetings and subsequently become input in formal decision-making on policies and investments. This form of deeper process study is challenging not least since it requires extensive access to conduct interviews and observations at the funds. However, such studies would be beneficial to further substantiate our proposition of changing institutional norms.

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Author contributions

The authors have collaborated and have both contributed to all parts of the paper.

Data availability

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Monika Berg is associate professor in sociology at Örebro University, Sweden, and research leader of the Environmental Sociology Section. Her research examines green transformation, the role of epistemic ideas and the interrelationship between science and policy, values and facts.

Jan Olsson is Professor of Political Science. His research focus is on public policy, administration, and planning. An important research theme is the role and influence of public administrators in the policy process and what the implications are for democratic governance and public ethics.