

Institutional Change in the Making

The Case of Socially Responsible Investment

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Summary

At a time when the world is facing a financial, economic and social crisis of great amplitude, the development of SRI questions our common understanding of finance. At first sight, combining social responsibility and financial performance appeared contradictory. A few years later, however, no longer taking into account SRI criteria appears impossible. Today, SRI criteria seem to have always been used by asset managers. What took place in between the apparent contradiction between SRI and finance, the impossible implementation of SRI in practice and the accepted adoption of SRI criteria by asset managers?

Clearly, explaining this change requires further investigation. This is the objective of this dissertation. Following a pragmatist epistemology (Peirce 1931; Dewey 1938), it aims at explaining how and why SRI has been institutionalized in the French asset management sector, a phenomenon known as SRI Mainstreaming. For this purpose, it investigates the causes and the mechanisms through which SRI change has been enacted in practice. In doing so, this research contributes to the understanding of a process of institutional change *in the making*. This summary gives an overview of the dissertation. Section 1 introduces the phenomenon of SRI Mainstreaming. Section 2 develops the theoretical background and the research methods in-use. Sections 3 and 4 detail the research methods and findings. Lastly, section 5 and 6 point to further research.

1. From SRI to Mainstream: The SRI Mainstreaming Phenomenon

The French SRI market has become increasingly competitive over the past ten years. At the end of 2009, there were 268 SRI investment funds proposed by 65 asset management companies,¹ working with more than 20 social rating agencies. Today, SRI funds are said by Novethic to represent between 2 to 3% of the French assets under management. However, this

¹ This proportion refers to the assets managed by the French *OPCVM*. Source : Novethic www.novethic.fr

small proportion hides a much larger trend: the progressive and massive integration of SRI criteria into the mainstream. At the end of 2009, this new phenomenon, known as SRI Mainstreaming, concerned 90% of conventional funds in terms of assets, compared to 61% at the end of 2008 and 3% at the end of 2007 (Novethic 2010).

Over the past three years, the acceleration of the SRI Mainstreaming phenomenon has been considerable; which has blurred the differences between SRI and the mainstream. Consequently, the tenants of SRI face a new challenge: to demonstrate the differences between SRI and conventional funds, while maintaining good financial performance. This task is all the more difficult since SRI performance has not yet been defined.

SRI Mainstreaming is also a challenge for conventional actors: as SRI Mainstreaming develops, institutional investors are asking for a greater integration of SRI criteria into conventional funds.

This integration is a difficult task, as developing SRI Mainstreaming disrupts the practices of asset management companies. Financial performance is no longer the only important factor, SRI criteria also matter. This sudden and profound change disturbs the institutional logics (Friedland and Alford 1991; Thornton and Ocasio 1999) of the asset management sector: the practices, assumptions, beliefs and rules mobilized by sector members to make sense of their reality are questioned.

Regarding the complexity of such an institutional change, the dissertation aspires to understand how and why the practices of the French asset management sector have been transformed in response to SRI Mainstreaming. In particular, it aims at answering the following research questions:

- How and why has SRI Mainstreaming expanded into France?
- How have asset management companies transformed their practices in response to SRI Mainstreaming?
- Why has this transformation differed between equity and fixed-income investment?

2. Theoretical Background

The dissertation attempts to understand the causes and mechanisms of a process of institutional change *in the making*. The choice has been made not to provide a holistic theoretical framework; instead, it focuses on the following theoretical questions:

- To what extent and under what conditions can new social movements change economic institutions?
- How do actors transform their practices in response to institutional change?
- What explains practice variation when faced with institutional change?

For this purpose, the dissertation draws to a large extent on institutional theories. Notably, it mainly relies on the concept of institutional logics, which are defined as a ‘set of material practices and symbolic constructions – which constitutes its organizing principles and which is available to organizations and individuals to elaborate’ (Friedland and Alford 1991). The institutional logics provide the *scheme of meanings* through which actors make sense in practice of their reference institutions.

In addition, the dissertation mobilizes several practice theories:

Social movement theory (Benford and Snow 2000; McAdam and Scott 2005) is a collective action theory which studies how and why social movements aim at changing existing institutions. It is used as a theoretical device at the organizational field level to explain the origins of SRI Mainstreaming in the French asset management sector. Unlike collective institutional entrepreneurship, social movement theory enables the theorization of collective agency at stake in a process of institutional change. It also allows the introduction of higher motivations than personal interests in conducting institutional change, such as society choices conveyed by the Sustainable Development project.

Pragmatism (Peirce 1931; Dewey 1938) is used to theorize how actors collectively transform their practices in response to institutional change. This is obtained thanks to the concept of collective inquiry, which is defined as the investigation processes – mobilized by a group of actors committed to the same collective activity – to make sense of an uncertain and disrupted situation. This concept facilitates the study of the intra-organizational dynamics of institutional change by providing a collective action theory focused on practices.

Lastly, to be able to restore the role of objects in the process of transformation of practices, the dissertation relies on the concept of epistemic and technical objects (Rheinberger 1992; Knorr-Cetina 1997). Rheinberger defines an epistemic object as any

object under research: an ‘object which embodies what one does not yet know’ (Rheinberger 1992). He distinguishes epistemic from technical objects, which are fixed and provide stable knowledge.

3. Research Methods

Along the same lines as action research, this dissertation employs a cooperative inquiry method (Heron 1996), which is based on the concept of inquiry developed by pragmatists (Peirce 1931; Dewey 1938). A cooperative inquiry ‘involves two or more people researching a topic through their own experience of it, using a series of cycles in which they move between this experience and reflecting together on it’ (Heron 1996). This method implies cooperative relationships between the researcher and the subjects: they work together as co-researchers and co-subjects.

In accordance with this perspective, I participated in the research process both as a researcher and a practitioner. This in-depth integration within the practices of asset management was obtained through an agreement – known as a *CIFRE* (Industrial Contracts for Training Through Research) – between a French asset management company known as SRI Invest², my laboratory and myself, under the control of the French Ministry of Research. According to this contract, over three years (May 2006-May 2009), I worked for SRI Invest as an SRI Analyst and was permitted to use the data I collected for academic purposes.

SRI Invest was a small asset management company, specialized in SRI since 1997, which employed almost 20 people. To support the research process, I used three types of data collection:

- Participative observation: during three years, I held the position of a complete member, which meant that I was ‘fully immersed in the research setting’ (Adler and Adler 1987). I could understand the beliefs, values and goals of SRI Invest members. To favor the process of reflexivity required by the inquiry, I wrote a daily diary where I described the main events of each day I spent at SRI Invest and commented on them.³
- Interviews: from July 2007 to November 2009, I interviewed actors in the French asset management field and listed companies to understand how their practices had been impacted by the development of SRI Mainstreaming. In total, this represented 47

² SRI Invest is a pseudonym.

³ This represented several hundred pages of notes.

semi-structured interviews; 39 of which were tape-recorded and transcribed verbatim. For the eight other interviews, interviewees' comments were recorded in handwritten notes, which were reviewed, edited and transcribed immediately.

- Documents and secondary data: extensive data were collected from documentary sources, including trade association surveys, professional reports (consultants, asset managers, brokers and social rating agencies), NGO studies, newspapers, newsletters, websites, theses, academic papers and books. Documentary evidence at SRI Invest, such as minutes of the meetings and process presentations to clients, were also analyzed.

4. Research Findings

The dissertation provides different answers to the three above research questions (section 1). Firstly, it explains how and why SRI Mainstreaming has expanded into France. It demonstrates that this phenomenon has resulted from the action of a collective movement, driven by financial players, including asset managers and former financial analysts. This movement has been described as a social movement (McAdam and Scott 2005), whose purpose is to trigger institutional change in the French asset management sector. In order to convince conventional actors of the relevance of SRI for their funds, the movement mobilizes structures and framing processes (Benford and Snow 2000). To succeed, the movement has also benefited from political opportunities, such as the emergence of a new demand for SRI from public pension funds and change in society. However, over the past few years, the movement has appeared to die out. As SRI Mainstreaming grows, SRI and conventional funds start to resemble each other: a mimesis which threatens the survival of SRI.

Secondly, the dissertation studies how an asset management company (re)designs its equity investment processes, in response to SRI Mainstreaming. Facing the disruption of practices due to SRI Mainstreaming, it argues that actors are required to (re)design their collective activity. It demonstrates that actors transform their practices through the transformation of an epistemic object, which is an object under research (Rheinberger 1992). More particularly, the asset management company under study uses an investment process as an epistemic object. Through (re)designing their epistemic object, actors transform their practices, technical objects and institutional logics (Friedland and Alford 1991; Thornton and Ocasio 1999). This transformation occurs through a collective inquiry (Peirce 1931; Dewey 1938), which constantly combines reasoning and experimentation.

Lastly, it explores why the transformation of asset management companies practices in response to SRI Mainstreaming differ between equity and fixed-income investment. Notably, the dissertation argues that the variations between the two result from their differences in terms of institutional logics. Asset managers deem SRI analysis to enrich equity investment as it is expected that SRI criteria lead to better financial performance in the long term. In contrast, the institutional logics of fixed-income investment contradict SRI logics; asset managers believe that SRI Mainstreaming threatens financial performance. Namely, this results from the fact that no SRI criteria have yet been developed to predict the possibility of companies going bankrupt. Yet, the anticipation of this risk is judged to be the major risk to which SRI criteria may contribute. As a result of these differences, SRI Mainstreaming itself changes. In equity investment, SRI Mainstreaming keeps growing. As it develops, SRI analysis increasingly moves toward financial analysis. In fixed-income investment, SRI Mainstreaming seems to slow down. SRI is progressively shifting from a financial approach to an ethical one. SRI no longer appears as a means to achieve better financial performance, but as a way to favor the most socially responsible companies, and this, for ethical purposes.

5. The Future of SRI Mainstreaming

Though foreseeing the future is impossible, one can expect a researcher to have certain convictions, especially after working four years on a research topic. First and foremost, I do not believe that SRI funds will disappear. Although the appearance of SRI funds has been quite recent in France, the development of a retirement system based on funded pension plans will certainly maintain the demand for SRI funds, at the very least, from trade unions.

Moreover, despite the financial crisis, SRI has benefited from a growing interest among investors. In addition, the good performance of SRI funds during the financial crisis has convinced most conventional actors that SRI does not necessarily threaten financial performance.

Lastly, the emergence of new regulation in the French asset management sector may favor the development of SRI in the future. This, in turn, may favor the development of SRI, especially in fixed-income investment.

Over a ten year horizon, I expect conventional funds to have integrated SRI criteria deemed to generate better financial performance in their financial analysis. However, I do not believe that conventional finance as a whole will be assessed on two types of performances: financial and SRI.

I also predict the development of SRI/ethical funds, based on exclusion, both for individual and institutional investors. Although financial performance will remain an important criterion, these investors will accept jeopardizing financial performance for ethical purposes. However, these funds will remain marginal in terms of assets.

Finally, I consider that current SRI/financial funds where SRI is a means for investors to achieve better financial performance will disappear and be progressively replaced with SRI/responsible funds. SRI/responsible funds are adopted by investors in order to maintain their 'operating license' by shielding themselves from scandals and risks.

As a result, to survive, SRI funds will have to differentiate themselves from conventional funds (for instance, through the use of an SRI label).

6. Avenues for Further Research

The dissertation has been a first step towards a better understanding of the process of institutional change in the making. It has aimed to address the challenge of cross-theoretical frameworks by breaking down barriers between theoretical perspectives and exploiting their complementary explanatory potential. Throughout, the dissertation has reinforced the claim of pragmatism that the cooperation between researchers and practitioners is of primary importance for generating innovative knowledge and *savoir-faire*. In demonstrating so, the dissertation has also pointed to further research, namely: the function of SRI labels, the penetration of SRI analysis in financial analysis, the development of SRI Mainstreaming worldwide and the role of epistemic objects in the transformation of practices.

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