Institutional Change in the Making
The Case of Socially Responsible Investment

Diane-Laure Arjaliès - de la Lande de Vallière
ESSEC Business School (Cergy, France)
& Université Paris Ouest Nanterre la Défense (Nanterre, France)

Supervised by Pr. Philippe Lorino & Pr. Nicolas Mottis

diane-laure.arjalies@essec.edu
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What is Socially Responsible Investment (SRI)?

Origins of SRI
- 1920s – US Methodists and Quakers’ ethical desire to avoid the ‘sin-stocks’.
- 2000s – Expansion of SRI in France notably thanks to public pension funds.

Goals of the French SRI
- No exclusion / Best-in-class approach.
- Two objectives:
  - Financial performance.
  - Investing in the most socially responsible companies in each sector.

Institutional Change
- ‘SRI Mainstreaming’: integration of SRI criteria into conventional funds.
- 2009 – 90% of conventional assets integrated at least one SRI criterion (compared to 61% in 2008 and 3% in 2007).
- 2009 – SRI funds represented 3% of the French assets.
SRI Mainstreaming: A Disruption of Asset Management Companies’ Practices
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How and why SRI Mainstreaming has been institutionalized in the French asset management sector?

&

How did asset management companies transform their practices in response to SRI Mainstreaming?
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Epistemological Position

- **Pragmatist epistemology (Peirce, 1931; Dewey, 1938):**
  - Working with the people who are being studied, not simply observing them.
  - The researcher can be compared to a detective.

- **Cooperative Inquiry Method (Heron & Reason, 1995; Heron, 1996; Lorino et al., 2010):**
  - Experimental nature of knowledge.
  - Abduction.
  - Mediation.
  - Community of actors.

- **Three-year (2006-2009) longitudinal case study of a French asset management company (SRI Invest) conducted as an SRI analyst.**
## Data Collection

<table>
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<tr>
<th>Participative Observation</th>
<th>Internships</th>
<th>Documents and Secondary Data</th>
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<tbody>
<tr>
<td>• Member of SRI Invest as an SRI analyst (CIFRE).</td>
<td>• Semi-structured interviews with different actors of the French asset management field from July 2007 and November 2009 (in all, 47).</td>
<td>• Trade association surveys, professional reports, newspapers and so on.</td>
</tr>
<tr>
<td>• Three years in the field.</td>
<td>• 39 interviews tape-recorded and transcribed verbatim, 8 recorded in handwritten notes.</td>
<td>• Internal Documents of SRI Invest (e-mails, minutes of the meetings, process presentations to clients, etc.).</td>
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<tr>
<td>• Day-to-day field notes.</td>
<td>• Lasted between 30 minutes and 2 hours and 15 minutes.</td>
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Institutional Theories and their Limits

- Institutional theories have explored how new practices are implemented and internalized in response to institutional change (DiMaggio & Powell, 1983; Zucker, 1988; Hasselbladh & Kallinikos, 2000; Sahlin & Wedlin, 2008).

- However, still largely missing is a better understanding of:
  - The role of collective action in the process of institutional change.
  - The relationship between institutional and practical change.
  - The explanation of practice variation when faced with institutional change.
  - The role of objects in the transformation of practices in response to institutional change.

Aim to fill these gaps to gain a better understanding of how actors maintain and transform the institutional forces that guide daily practices.
Theoretical Choices

Combining institutional with practice theories:

- Use of the concept of ‘institutional logics’: ‘the schemes of meanings through which actors make sense in practice of their reference institutions’ (Friedland & Alford, 1991, Friedland, 2009; Bogt & Scapens, 2009).

- Introduction of social movement theory: studies how social movements aim at changing existing institutions (McAdam et al., 1996; Benford & Snow, 2000).

- Development of the concept of ‘collective inquiry’ inspired by pragmatism: ‘the investigation processes – mobilized by a group of actors committed to the same collective activity – to make sense of an uncertain and disrupted situation’ (Peirce, 1931; Dewey, 1938).

- Integration of the concepts of ‘epistemic object’ and ‘technical object’: an epistemic object is ‘an object which embodies what one does not yet know’ as opposed to a stabilized technical object (Rheinberger, 1992, 1997; Knorr-Cetina, 1995, 1997).
A Focus on the Mechanisms of Collective Inquiry
The Use of an Epistemic Object to Transform the Practices of SRI Invest

An example of epistemic object: a PowerPoint Representation of an Investment Process
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**A Social Movement Perspective on Finance: How Socially Responsible Investment Matters**

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<th><strong>Research Question</strong></th>
<th>How and why SRI Mainstreaming has expanded into France?</th>
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<tbody>
<tr>
<td><strong>Theories in-use</strong></td>
<td>- Institutional theories</td>
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<tr>
<td></td>
<td>- Social movement theory</td>
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<tr>
<td><strong>Research Methods</strong></td>
<td>- Participative observation</td>
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<td></td>
<td>- Semi-structured interviews (33)</td>
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<tr>
<td></td>
<td>- Secondary data and documentary evidence</td>
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<tr>
<td><strong>Findings</strong></td>
<td><strong>The origins of SRI Mainstreaming:</strong></td>
</tr>
<tr>
<td></td>
<td>➢ SRI Mainstreaming resulted from the action of a collective movement, driven by financial players, which presented great similarities with a social movement.</td>
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<td></td>
<td>➢ The movement mobilized structures and framing processes to trigger institutional change in the French asset management sector.</td>
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<td></td>
<td>➢ It benefited from political opportunities such as the emergence of a new demand for SRI from public pension funds and change in society.</td>
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## TRANSFORMING PRACTICES IN RESPONSE TO INSTITUTIONAL CHANGE – EXPLORING THE ROLE OF OBJECTS

<table>
<thead>
<tr>
<th><strong>RESEARCH QUESTION</strong></th>
<th>How did asset management companies transform their practices in response to SRI Mainstreaming?</th>
</tr>
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<tbody>
<tr>
<td><strong>THEORIES IN-USE</strong></td>
<td>- Institutional theories&lt;br&gt;- Pragmatism&lt;br&gt;- Epistemic object</td>
</tr>
<tr>
<td><strong>RESEARCH METHODS</strong></td>
<td>- Participative observation&lt;br&gt;- Semi-structured interviews (7)&lt;br&gt;- Secondary data and documentary evidence</td>
</tr>
<tr>
<td><strong>FINDINGS</strong></td>
<td>The transformation of practices in response to SRI Mainstreaming:&lt;br&gt;➢ Actors transformed their practices, technical objects and institutional logics through transforming an epistemic object (i.e. the representation of an investment process).&lt;br&gt;➢ This transformation occurred through a collective inquiry.</td>
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### EXPLAINING PRACTICE VARIATION WHEN FACED WITH INSTITUTIONAL CHANGE: THE EXAMPLE OF SOCIALLY RESPONSIBLE INVESTMENT

<table>
<thead>
<tr>
<th><strong>RESEARCH QUESTION</strong></th>
<th>Why did the transformation of practices of asset management companies differ between equity and fixed-income investment?</th>
</tr>
</thead>
</table>
| **THEORIES IN-USE**   | - Institutional theories  
                        - Pragmatism  
                        - Epistemic object |
| **RESEARCH METHODS**  | - Participative observation  
                        - Semi-structured interviews (8)  
                        - Secondary data and documentary evidence |
| **FINDINGS**           | **Differences between equity and fixed-income investment resulted from:**  
                        ➢ The contradictions between fixed-income and SRI logics.  
                        ➢ The lack of technical objects (i.e. SRI criteria) for fixed-income investment.  
                        ➢ Institutional factors such as the reluctance of clients to integrate SRI criteria in fixed-income investment. |
## Institutional Logics of Equity Investment

<table>
<thead>
<tr>
<th>Stage</th>
<th>Institutional Change ‘SRI Mainstreaming’</th>
<th>SRI Logics</th>
<th>Financial Logics</th>
<th>Development Logics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Initial Stage</strong></td>
<td>Selecting the most socially responsible issuers maintaining good financial performance</td>
<td>Favoring the most socially responsible issuers</td>
<td>Maintaining good financial performance</td>
<td>Meeting clients’ demands</td>
</tr>
<tr>
<td><strong>Transformation Stage</strong></td>
<td>SRI appears to be a means to select the most promising issuers financially speaking</td>
<td>Selecting issuers whose business should benefit from SRI</td>
<td>Using SRI as a means to enrich asset management</td>
<td>Preparing the future</td>
</tr>
<tr>
<td><strong>Final Stage</strong></td>
<td>SRI Mainstreaming expands and enriches previous equity’s institutional logics</td>
<td>Enriching financial analysis thanks to a non-financial approach</td>
<td>Working with SRI to meet SRI Mainstreaming which should be financially profitable in the long term</td>
<td>Arguing for SRI Mainstreaming</td>
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Institutional Logics of Fixed-Income Investment

<table>
<thead>
<tr>
<th>Institutional Change</th>
<th>SRI Logics</th>
<th>Financial Logics</th>
<th>Development Logics</th>
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</thead>
<tbody>
<tr>
<td>‘SRI Mainstreaming’</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Initial Stage</strong></td>
<td>Selecting the most socially responsible issuers maintaining good financial performance</td>
<td>FAVORING THE MOST SOCIALLY RESPONSIBLE ISSUERS</td>
<td>MAINTAINING GOOD FINANCIAL PERFORMANCE</td>
</tr>
<tr>
<td><strong>Transformation Stage</strong></td>
<td>SRI appears to be incompatible with fixed-income’s institutional logics</td>
<td>INTEGRATING SRI CRITERIA WITHOUT ENDANGERING FINANCIAL PERFORMANCE</td>
<td>LOWERING SRI CONSTRAINTS WHICH THREATENS FINANCIAL PERFORMANCE</td>
</tr>
<tr>
<td><strong>Final Stage</strong></td>
<td>SRI Mainstreaming cannot be integrated in fixed-income’s institutional logics</td>
<td>CONTROLLING THE RESPECT OF SRI CRITERIA</td>
<td>BEING FORCED TO MANAGE WITH SRI CONSTRAINTS</td>
</tr>
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Contributions

Theoretical contribution:

➢ Connection of institutional change with the transformation of daily work practices and social movement theory:
  - Explanation of practice variation.
  - Exploration of the role of objects.

Methodological contribution:

➢ Demonstration of the relevance of pragmatist methods to study the everyday practices of actors.

Empirical contributions:

➢ SRI:
  - Study of the day-to-day practices of an asset management company.
  - Exploration of the phenomenon of SRI Mainstreaming.

➢ Importance of the role of a mediating object – such as the representation of an investment process – when conducting a process of practical change.

➢ Necessity to develop new SRI criteria for fixed-income investment.
Need for Further Research

Theoretical challenges:

- Studying the impacts of the transformation of practices on institutional change.
- Providing an international perspective on SRI Mainstreaming.

Practical and sector challenges:

- Developing new SRI criteria for fixed-income investment.
- Achieving a sector agreement on SRI performance.
- Achieving a sector agreement on an SRI label.
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APPENDICES
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