# THE INSTITUTIONAL AND SOCIAL CONTRUCTION OF RESPONSIBLE INVESTMENT

Jean-Pascal Gond*
Céline Louche
Rieneke Slager
Carmen Juravle
Camilla Yamahaki

Abstract: This paper provides a summary of the symposium on the institutional and social construction of Responsible Investment (RI), held at the 22nd IABS conference. In the context of the symposium, we propose to move beyond the dominant focus on the financial impact of RI to consider the potential of emergent institutional and sociological perspectives to explain the practices and concepts related to RI. In doing so, our aim is to explore in greater detail the current changes in the RI infrastructure and the impact of these changes on wider issues of corporate sustainability and social responsibility.

Keywords: Responsible Investment; Social Constructivism; Institutionalism

Responsible Investment (RI) can be a crucial driver of corporate sustainability and social responsibility. Over the last 20 years, an expanding global infrastructure for RI has emerged with the rise of new organizational actors, such as social rating agencies (Déjean, Gond and Leca 2004), specialized consultants, dedicated RI associations (e.g., Social Investment Forum, Eurosif), think tanks, and engagement services organisations (Waddock 2008). A myriad of related policy initiatives have emerged such as the European Federation of Financial Analysts Commission on Environmental, Social & Governance (EFFAS CESG) and a multitude of reports, articles and surveys have been published in recent years about responsible investment (see Amaeshi 2010). As a result, the concept of RI has been embraced by global institutions

* Author contact information:
Jean-Pascal Gond : jean-pascal.gond@hec.ca • +1 514.340.6365 • HEC Montréal, 3000 chemin de la Côte-Sainte-Catherine, Montréal, QC H3T 2A7, CANADA
Céline Louche: celine.louche@vlerick.com • +32 9 210 97 98 • Vlerick Leuven Gent Management School, Reep 1, 9000 Gent, BELGIUM
Rieneke Slager: lixchs@nottingham.ac.uk • +44 115 846 77442 • University of Nottingham Business School, Wollaton Road, Nottingham NG8 1BB, UK
Carmen Juravle: C.I.Juravle@bath.ac.uk • +44 20 7611 1117 • University of Bath, Department of Psychology, Bath BA2 7AY, UK
Camilla Yamahaki: c.yamahaki@mdx.ac.uk • +44 7899695488 • Middlesex University, the Burroughs, London, NW4 3BT, UK

(Rasche 2009, PRI 2009) and RI practices have diffused across countries (Boxenbaum and Gond 2005, Louche and Lydenberg 2006).

Attempts to define, theorise, and measure RI in the academic literature abound, yet the concept still remains elusive (Hutton, d'Antonio and Johnsen 1998, Kurtz 2008). Countless definitions and related concepts exist in both academic literature and practice related to RI (see e.g., Eurosif 2010, Juravle and Lewis 2008). Generally, the academic literature has not yet addressed the issue of defining the abstract construct of RI (Kurtz 2008, Sparkes and Cowton 2004). Its existence is either taken for granted and accepted as specific form of investment (e.g., Barnett and Salomon 2006) or rejected as a temporary fashion in the financial industry (e.g., Entine 2003; Juravle and Lewis 2008).

On the one hand, some academics perceive RI practices as a niche market within the financial industry, which will either remain at the margins of mainstream financial practices or disappear overtime (Amaeshi 2010). On the other hand, those that have taken for granted the abstract concept of RI have often been mainly concerned by the economic question of the relationship between RI and performance (Slager, Gond and Moon 2010). The vast majority of empirical works in this stream of research focuses either on the financial performance of RI portfolios (e.g., Diltz 1995, Guerard 1997, Derwal et al. 2005, Kempf et al. 2007) or assesses the performance of RI funds against conventional funds (e.g., Bauer et al. 2002, Kreander et al. 2005).

While such a research orientation is perfectly legitimate, it has so far followed the path of the studies on the relationship between corporate social and financial performance (Orlitzky, Schmidt and Rynes 2003, Margolis and Walsh 2003) and failed to established unambiguous results. In addition, this research perspective led scholars to overlook the social and institutional processes of RI construction as a social practice (Gond and Crane 2010, Waddock 2008). As a result little is known neither about the social forces that drive RI institutionalization nor about the factors that explain the strong growth of RI in the financial marketplaces of many countries over the last 15 years.

In the context of this symposium, we propose to move beyond the dominant focus on the financial impact of RI to consider the potential of emergent institutional and sociological perspectives to explain the practices and concepts related to RI. In doing so, our aim is to explore in greater detail the current changes in the RI infrastructure and the impact of these changes on wider issues of corporate sustainability and social responsibility. We argue that questions about the future of RI can only be addressed if more attention is paid to the different social and institutional processes whereby RI has emerged in different markets. What mechanisms enable the diffusion of RI as a concept across countries? What is the role of organisations promoting RI, of national legislation or of metrics used in the RI industry? What is the impact of the recent changes in the global RI infrastructure on the concept of RI and its potential to grow in the mainstream financial markets?

More specifically, the papers presented in the symposium investigate the institutional and social construction of RI at the individual, organizational, institutional field and macro-institutional levels of analysis in combining a variety of methodological approaches (field study, interviews, historical analysis, mixed methods) and a variety of theoretical perspectives — such as new-institutional theory (DiMaggio and Powell 1991) with the concept of institutional work (Lawrence and Suddaby 2006, Lawrence et al. 2009), sensemaking (Weick 1979), the economies of worth framework (Boltanski and Thévenot 2006), and the 'anthropology of markets'— in mobilizing concepts such as calculability (Callon 1998, Callon and Muniesa 2005). Table 1 provides an overview and comparison of the papers that have been presented at the symposium.

The first two papers presented in the symposium focused on the individual level of analysis from different theoretic perspectives. Juravle provides a critical outlook on the possibility of RI becoming fully integrated into mainstream financial markets. By examining the opinions on RI of mainstream investors not active in the RI field, the author illustrates that the model of intentional amoral management is still pervasive within the mainstream investment community. In addition, mainstream investors are often oblivious to RI, likening it to a fad or bubble, whilst being unaware of recent developments in common RI practices. By contrasting these findings to earlier studies that examined RI champions in the UK (Juravle and Lewis 2009; 2010), the study finds evidence of an ideological and moral divide that hampers the 'mainstreaming' of RI.

Whilst the paper by Juravle focusses mainly on the outsiders' perspective on RI, Louche and Markovitz examine the sensemaking of actors inside the RI market when confronted with moral dilemmas in their investment decisions. Recognising that these actors often face institutional complexity, the authors draw on the concepts of social locations (Tushman and Romanelli 1983) and the logic of justification (Boltanski and Thevenot 2006) to explore the sensemaking involved in critical moments with high ambiguity. They find that actors use multiple social locations in a dynamic way to make sense of the competing institutional logics in the RI field.

The next set of papers presented in the symposium moved from the individual to the organisational level of analysis to examine common practices and technologies used in the RI field. Slager, Gond and Moon study the creation and maintenance of a popular standard in the RI market, the FTSE4Good Index. The authors employ the concept of institutional work (Lawrence and Suddaby 2006, Lawrence et al. 2009) to highlight the work that is required by various organisations to standardise the concept of responsible corporate behaviour. Just as Louche and Markovitz emphasise the dynamics in the process of sensemaking at the individual level, Slager et al find the work of standardisation is continuously evolving, and unanticipated consequences of this work may be recaptured over time.

**Table 1: Comparative analysis of the papers presented**

| Authors | Paper Title | Theoretical perspectives / concepts | Empirical levels of Analysis | Contribution to the understanding of RI |
|---|---|---|---|---|
| Carmen Juravle | Avoiding contagious optimism: how far has SRI moved into mainstream investment (consciousness)? | Ethics, social psychology, organizational sociology. | Individual level (systematic comparison of pro-RI vs. mainstream investors) | Understanding of the barriers to RI from an individual viewpoint<br>Clarification of the arguments against RI within the mainstream |
| Céline Louche and Linda Markowitz | Sensemaking and social location: How actors in the responsible investment industry justify decisions | Sensemaking and Economies of worth<br>Sociological method | Individual level<br>Inter-individual level<br>Organizational field level | Integration of the economies of worth framework with a psychological perspective<br>Understanding of the individual modes of rationalization for RI decision-making |
| Rieneke Slager, Jean-Pascal Gond and Jeremy Moon | Institutional work for responsible investment | Institutional work perspective<br>Sociological method (qualitative) | Organizational level<br>Inter-organizational level of analysis | Practices deployed by actors to build a RI standard that is used as 'moving target'<br>Micro-analysis of an institutional phenomenon |
| Camila Yamahaki | The determinants of shareholder activism in emerging markets | New-institutional theory, (mixed design) | Organizational level of analysis<br>National context | Institutional determinants of shareholder activism<br>Specific factors shaping activism in emerging markets<br>Interplay of organizational and institutional factors |
| Stéphanie Giamporcaro and Jean-Pascal Gond and | How calculative agencies sustain and shape markets: The case of responsible investment in France | Calculability (Callon), Economic Sociology and New-institutional theory<br>Historical analysis, qualitative methods | Organizational level (calculative agencies)<br>Industry level (RI market) | Role of calculative agencies in the social construction of a market for SRI<br>Organizational construction of a calculative infrastructure for RI |

The paper by Yamahaki provides a theoretical framework to study the institutional determinants of shareholder engagement in emerging markets. Whilst there is increasing interest in shareholder engagement in these markets, the literature on shareholder engagement and activism has focussed mainly on the Anglo-Saxon markets. Yamahaki develops an extensive set of hypotheses in order to provide a better understanding of the factors that might encourage or hamper the development of increased shareholder engagement in Brasil and South Africa.

The paper by Giamporcaro and Gond also combines the organisational and national level of analysis to explore the 'calculative infrastructure' created by organisations in the French RI market. The authors highlight the development of metrics, assessment standards, and calculative devices as central to the RI market (Déjean, Gond &Leca 2004, Markowitz 2007, Waddock 2008). Organisations that have created these calculative devices have built a calculative infrastructure that sustains the existence of the market. By focussing on the interlinkage between these organisations, the dynamics of market construction are brought to the fore.

## DISCUSSION

Whilst the papers presented in the symposium draw on a wide range of theoretical perspectives and focus on different levels of analysis, common themes can be identified in their contribution to the understanding of RI as a global phenomenon. First, the social constructivist and institutional perspectives employed in the symposium highlight dynamics in the RI context and practices. RI is still an emerging field that changes, develops and evolves constantly and rapidly. Moreover, the understanding and practice of RI varies across time and space. This dynamism becomes apparent in all of the papers presented in the symposium, but broader questions still remain. What are the micro mechanisms such as translation and identity formation that are at stake when transposing RI from one context to another? We need to better understand how RI is being reframed in different national context through multiple translation processes that happen at multi-levels (Boxenbaum and Gond 2006). Social movement theory (Creed et al 2002, Doh 2006) can help to better understand how RI has become a cross-national or even global phenomenon.

Second, it was made clear during the symposium that RI as an emerging phenomenon cannot be fully understood by simply and only studying its financial impacts. Research on the relationship between financial and social performance can be regarded as part of the legitimacy process that is happening around RI and corporate responsibility (Gond 2006, Gond and Palazzo, 2008). The symposium reinforced the need and importance of a multi-disciplinary approach (institutional theory, institutional work, behaviour finance, convention theory, and others) to address and connect the different levels of analysis. It has demonstrated the valued added of recent development in domains such as standardization or the social studies of finance to advance our understanding of the mechanisms that underpin the process of RI institutionalization.

Third, many specialists and academics have portrayed RI to be on the verge of becoming mainstream practice among investors. There is considerable debate around the idea of mainstraining: to what extent RI is actually mainstream but also regarding the consequences and impacts of mainstreaming RI. In addition to those debates and discussions we need to better understand the institutional work around the notion of mainstreaming, the actors that either enable or slow down the process, and the impediments (structural, organisational, behavioural or cultural). Mainstreaming does not happen on its own. It requires a number of actions, processes and activities to make it happen or, conversely, to hamper it. Moreover mainstreaming RI means changes in the current financial activities. It has implications that go beyond the mere activity of RI and therefore calls for a more systemic analysis. An emerging problem discussed during the symposium relates to the transformations of RI practices themselves within the mainstreaming process (see also Arjaliès, 2010). Can RI practices maintain their alternative social, ethical and environmental dimensions while being integrated within mainstream financial practices? Will we observe a dilution of RI's capacity to change capitalism as predicted by authors such as Shamir (2005, 2008) or Arjaliès (2010)? Can 'alternative' RI practices resist mainstreaming and become institutionalized without betraying their social purpose?

It leads us to the fourth point regarding understanding RI practices and impacts in a broader system. RI needs to be understood in its historical path. A number of social movements such as the anti-apartheid and environmental movements have shaped RI in its early stage. Across the world, it has often been religious organisations that pioneered RI. How have those organisations and movements shaped and influenced the path for RI and do they continue to exert influence? In other words what is the effect of the historical path of RI on its development today? As mentioned in the first point it is important to contextualise RI and study its activities within wider institutional fields rather than studying it as an independent phenomenon. Such study would also help better understanding the (potential) impacts of RI on society.

In conclusion, the papers in the symposium show that the field of RI provides ample opportunities for research that extends beyond the economic question of the relationship between RI and firm performance. Researchers interested in field dynamics and evolution, institutional work and practices in the financial market or calculability and measurement will find a rich array of research opportunities. At the same time this type of research can provide RI practitioners with better insights into the effectiveness of tools and metrics commonly used in the field, methods for successful shareholder engagement and other questions that face them in this highly dynamic, ever evolving field.

## REFERENCES

Amaeshi K.M., 2010, Different markets for different folks: exploring the challenges of mainstreaming responsible investment practices, *Journal of Business Ethics* 92(1), 41-56.

Arjaliès, D.-L., 2010, A social movement perspective on finance: How socially responsible investment mattered, *Journal of Business Ethics* 92, 57–7.

Barnett, M.L., R.M. Salomon, 2006, Beyond dichotomy: the curvilinear relationship between social responsibility and financial performance. *Strategic Management Journal* 27(11), 1101-1122.

Bauer, R., K. Koedijk, R. Otten. 2002. International evidence on ethical mutual fund performance and investment style, Winner Social Investment Forum Moskowitz Price.

Boltanksi, L. Thévenot, L., 2006, *On justification, Economies of worth*, Princeton, NY: Princeton University Press.

Boxenbaum E. and J-P Gond, 2006, Micro-strategies of Contextualization: Cross-national Transfer of Socially Responsible Investment, Druid Working Paper No.06-24.
Callon, M., ed. 1998, *The laws of the markets*, Oxford: Blackwell Publishing.
Callon, M., F. Muniesa. 2005, Peripheral Vision: Economic Markets as Calculative Collective Devices, *Organization Studies* 26, 1229-1250.
Creed, W.E.D, Scully, M.A., Austin, J.R., Clothes make the person? The tailoring of legitimating accounts and the social construction of identity, *Organization Science,* 13(5), 475-496.
Déjean, F., J.-P. Gond, B. Leca. 2004, Measuring the unmeasured: an institutional entrepreneur strategy in an emerging industry, *Human Relations* 57, 741-764
Diltz, J. D., 1995, Does social screening affect portfolio performance?, *The Journal of Investing* 4, 64–69.
DiMaggio, P. J., W. W. Powell.eds. 1991. *The New Institutionalism in Organizational Analysis,* Chicago: University of Chicago Press.
Derwall, J., N. Günster, R. Bauer, and K. Koedijk, 2005, The ecoefficiency premium puzzle, *Financial Analysts Journal* 61, 51–63.
Doh, J.H, Guay, T.R., Corporate social responsibility, public policy, and NGO activism in Europe and the United States: An institutional-stakeholder perspective, *Journal of Management Studies,* 43(1), 47-73.
Entine, J. 2003,The myth of social investing: A critique of its practice and consequences for corporate social performance research, *Organization & Environment* 16(3), 352-368.
Eurosif, 2010, *European SRI study*, www.eurosif.org.
Gond, J.-P., 2006, *Du Concept de performance sociétale de l'entreprise. Fondements théoriques, construction sociale, impact financier*. Unpublished PhD Dissertation.
(University Toulouse 1).
Gond, J-P, Crane, A., 2010, Corporate Social Performance disoriented, Saving the lost paradigm?, *Business & Society*, 49(4): 49: 677-703.
Gond, J.-P., Palazzo, G. 2008, The social construction of the positive link between corporate social and financial performance. *Academy of Management Best Paper Proceedings*.
Guerard, J.B., 1997, Additional evidence on the cost of being socially responsible in investing, *The Journal of Investing* 6, 31–36
Hutton, R.B., D'Antonio L., Johnsen T., 1998, Socially Responsible Investing, Growing issues and new opportunities, *Business & Society* 37 (3), 281-305
Juravle, C., A. Lewis, 2008, Identifying impediments to SRI in Europe: a review of the practitioner and academic literature, *Business Ethics* 17(3), 285-310
Juravle, C. & Lewis, A., 2009, The role of championship in the mainstreaming of SI: What can we learn from SI pioneers in the UK?, *Organization & Environment* 22 (1), 75-91.
Kempf, A., Osthoff, P. 2007, The Effect of Socially Responsible Investing on Portfolio Performance, *European Financial Management*, 13 (5), 908-922
Kreander, N., R.H. Gray, D.M. Power, C.D. Sinclair, 2005, Evaluating the performance of ethical and non-ethical funds: a matched pair analysis, *Journal of Business Finance Accounting* 32(7), 1465-1493
Kurtz, L. 2008, Socially responsible investment and shareholder activism. A. Crane, A. McWilliams, D. Matten, J. Moon, D.S. Siegel, eds. *The Oxford Handbook of Corporate Social Responsibility*, Oxford: Oxford University Press
Lawrence, T.B., R. Suddaby. 2006, Institutions and Institutional Work. S.R. Clegg, T.B. Lawrence, W.R. Nord, eds. *The SAGE Handbook of Organization studies*, 2nd ed., London: SAGE publications, 215-254
Lawrence, T.B., R. Suddaby, B. Leca, eds. 2009. *Institutional Work. Actors and agency on institutional studies of organizations*. Cambridge: Cambridge University Press
Lewis, A., C. Juravle, 2010, Morals, markets and sustainable investments: A qualitative study of „champions‟, *Journal of Business Ethics*, 93(3), 483-494.

Louche, C., S. Lydenberg. 2006. Socially Responsible Investment: differences between Europe and United States, *Vlerick Leuven Gent Working Paper* Series 2006/22

Margolis, J.D., J.P. Walsh. 2003, Misery Loves Companies: Rethinking Social Initiatives by Business, *Administrative Science Quarterly* 48(2), 268-305

Orlitzky, M., F.L. Schmidt, S.L. Rynes. 2003, Corporate social and financial performance: A meta-analysis, *Organization Studies* 24(3), 403-441.

Principles for Responsible Investment, 2009, Report on Progress, A review of signatories progress and guidance on implementation, http://www.unpri.org/

Slager, R., Gond, J-P, Moon, J., 2010, What gets measured gets managed? The impact of SRI indices on responsible corporate behaviour, Toombs (Ed.), *Proceedings of the Seventieth Annual Meeting of the Academy of Management*

Tushman, M. and E. Romanelli. 1983. Uncertainty, Social Location and Influence in Decision Making: A Sociometric Analysis, *Management Science* 29(1): 12-23.

Rasche, A. (2009). A ‘necessary supplement’: What the United Nations Global Compact is and is not. *Business and Society*, 48(4), 511-537.

Shamir, R., 2005, Mind the gap: Commodifying corporate social responsibility, *Symbolic Interaction* 28, 229-253.

Shamir, R., 2008, The age of responsibilization: On market-embedded morality, *Economy and Society* **37**, 1–19.

Sparkes, R., C.J. Cowton. 2004, The Maturing of Socially Responsible Investment: A review of the Developing Link with Corporate Social Responsibility, *Journal of Business Ethics* 52, 45-57.

Waddock, S. 2008, *The difference makers. How social and institutional entrepreneurs created the corporate responsibility movement*, Sheffield: Greenleaf Publishing.

Weick, K, 1979, *The social psychology of organizing*, 2nd ed., Reading, MA: Addison-Wesley.