

PH.D. DEFENSE

ESSEC BUSINESS SCHOOL

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**Institutional Change in the Making
The Case of Socially Responsible Investment**

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Agenda

Introduction.....	p. 3
Research Questions.....	p. 6
Research Methods.....	p. 8
Theoretical Framework	p. 11
Articles Overview.....	p. 16
Conclusion.....	p. 22

Agenda

Introduction

Research Questions

Research Methods

Theoretical Framework

Articles Overview

Conclusion

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.

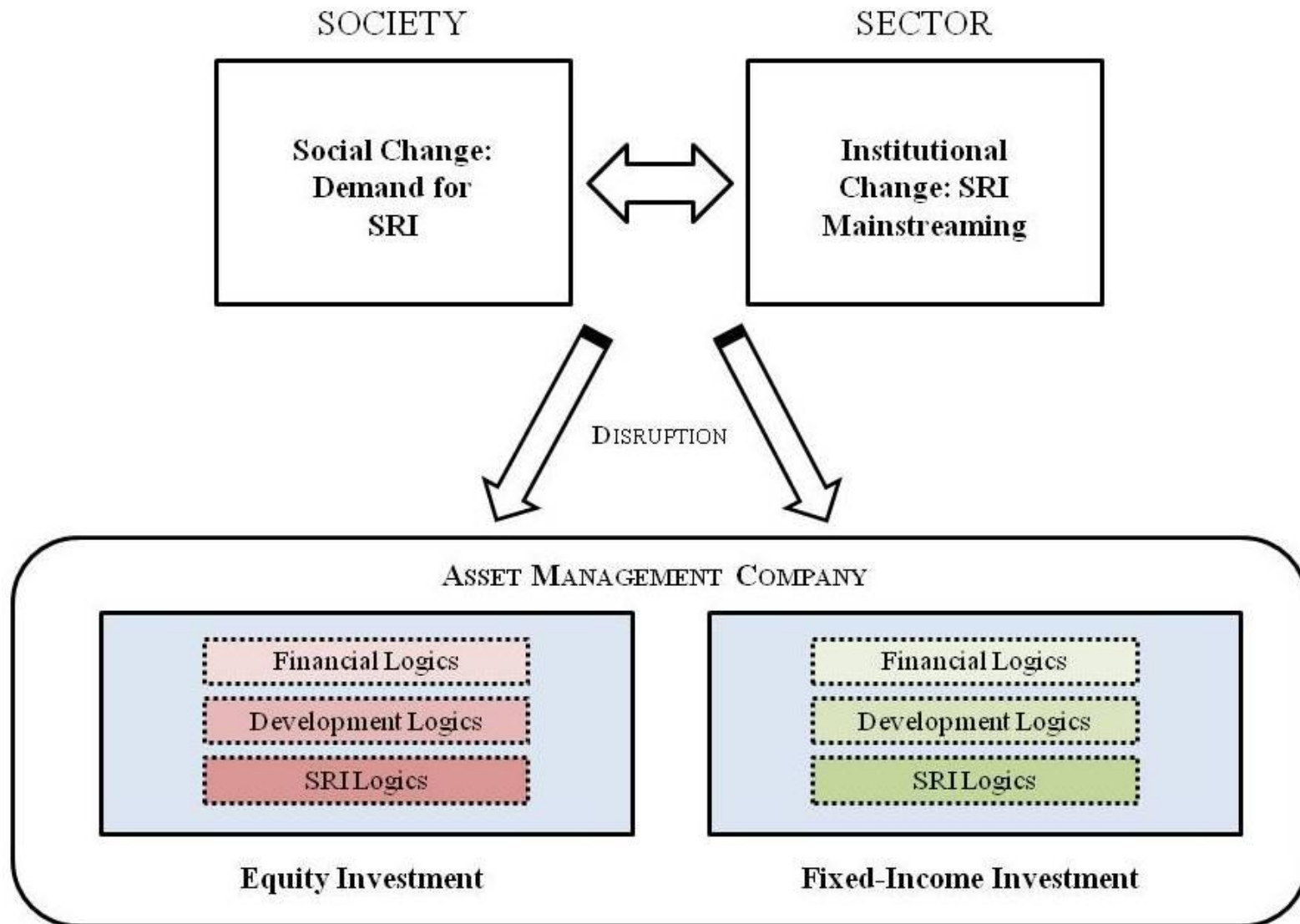
Goals of the French SRI

- 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



Agenda

Introduction

Research Questions

Research Methods

Theoretical Framework

Articles Overview

Conclusion

Research Questions

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?

Agenda

Introduction

Research Question

Research Methods

Theoretical Framework

Articles Overview

Conclusion

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

Participative Observation

- Member of SRI Invest as an SRI analyst (CIFRE).
- Three years in the field.
- Day-to-day field notes.

Interviews

- Semi-structured interviews with different actors of the French asset management field from July 2007 and November 2009 (in all, 47).
- 39 interviews tape-recorded and transcribed verbatim, 8 recorded in handwritten notes.
- Lasted between 30 minutes and 2 hours and 15 minutes.

Documents and Secondary Data

- Trade association surveys, professional reports, newspapers and so on.
- Internal Documents of SRI Invest (e-mails, minutes of the meetings, process presentations to clients, etc.).

Agenda

Introduction

Research Question

Research Methods

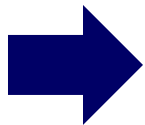
Theoretical Framework

Articles Overview

Conclusion

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.



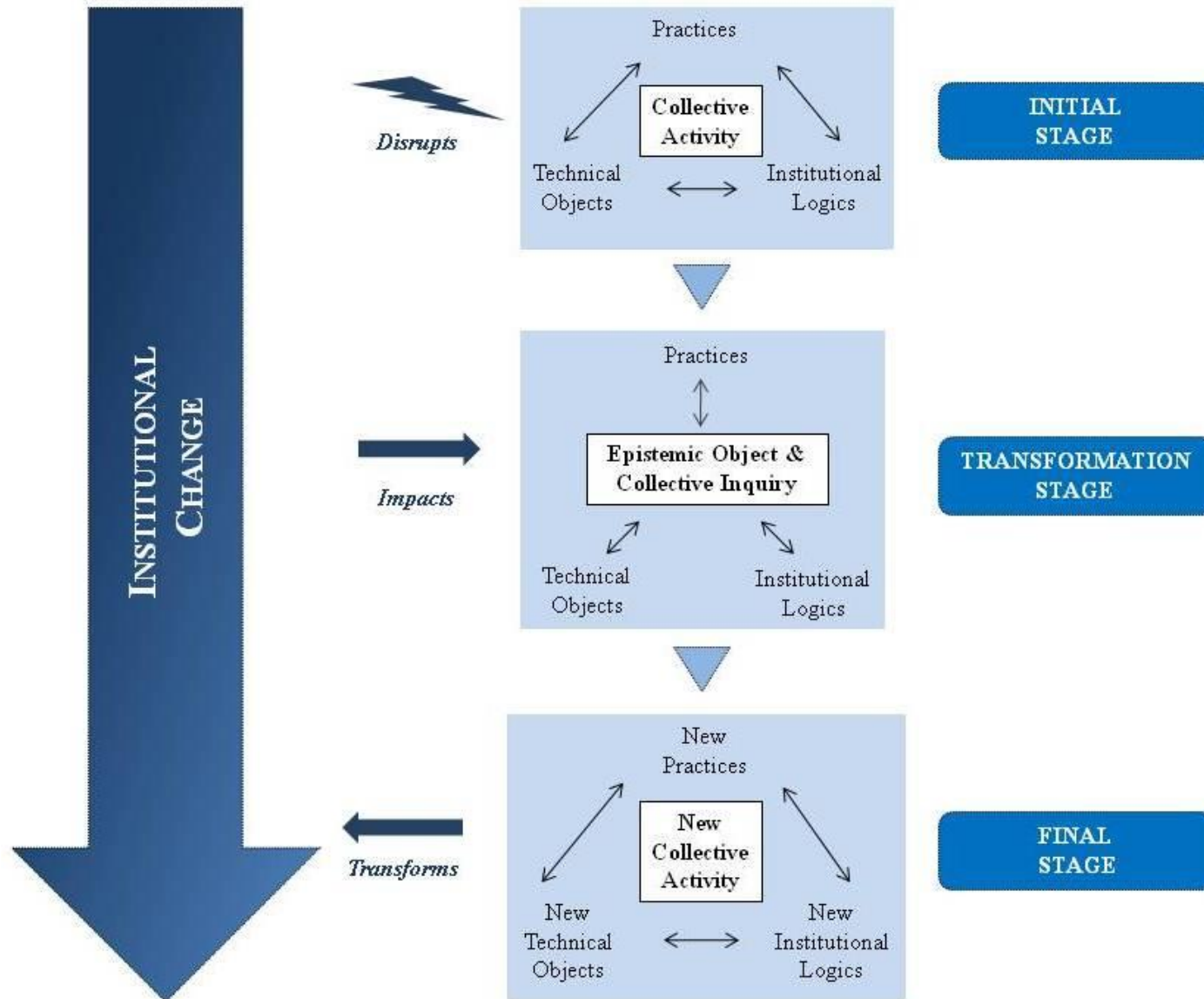
Aim to fill these gaps to gain a better understanding of how actors maintain and transform the institutional forces that guide daily practices.

Theoretical Choices

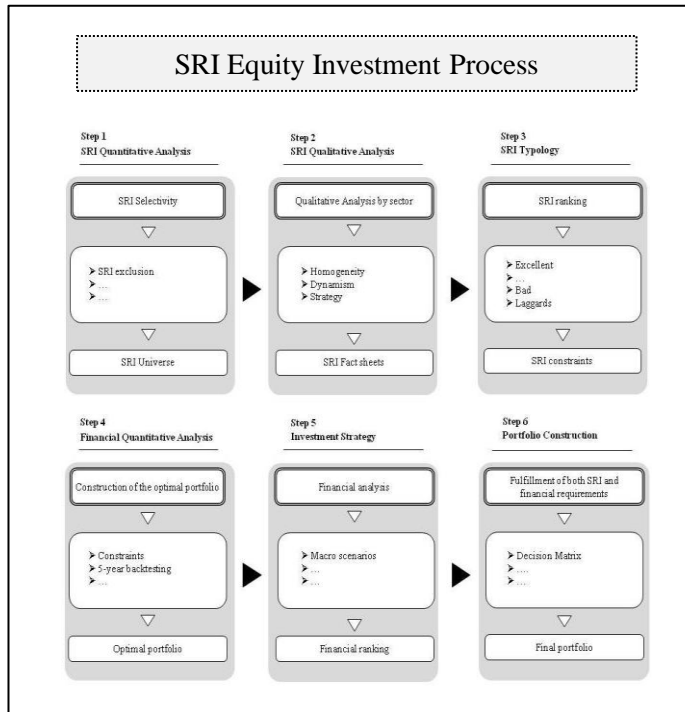
➤ **Combining institutional with practice theories:**

- **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



Agenda

Introduction

Research Questions

Research Methods

Theoretical Framework

Articles Overview

Conclusion

First Article

A SOCIAL MOVEMENT PERSPECTIVE ON FINANCE: HOW SOCIALLY RESPONSIBLE INVESTMENT MATTERED

RESEARCH QUESTION	How and why SRI Mainstreaming has expanded into France?
THEORIES IN-USE	<ul style="list-style-type: none">- Institutional theories- Social movement theory
RESEARCH METHODS	<ul style="list-style-type: none">- Participative observation- Semi-structured interviews (33)- Secondary data and documentary evidence
FINDINGS	<p>The origins of SRI Mainstreaming:</p> <ul style="list-style-type: none">➤ SRI Mainstreaming resulted from the action of a collective movement, driven by financial players, which presented great similarities with a social movement.➤ The movement mobilized structures and framing processes to trigger institutional change in the French asset management sector.➤ It benefited from political opportunities such as the emergence of a new demand for SRI from public pension funds and change in society.

Second Article

TRANSFORMING PRACTICES IN RESPONSE TO INSTITUTIONAL CHANGE – EXPLORING THE ROLE OF OBJECTS

RESEARCH QUESTION	How did asset management companies transform their practices in response to SRI Mainstreaming?
THEORIES IN-USE	<ul style="list-style-type: none">- Institutional theories- Pragmatism- Epistemic object
RESEARCH METHODS	<ul style="list-style-type: none">- Participative observation- Semi-structured interviews (7)- Secondary data and documentary evidence
FINDINGS	<p>The transformation of practices in response to SRI Mainstreaming:</p> <ul style="list-style-type: none">➤ Actors transformed their practices, technical objects and institutional logics through transforming an epistemic object (i.e. the representation of an investment process).➤ This transformation occurred through a collective inquiry.

Third Article

EXPLAINING PRACTICE VARIATION WHEN FACED WITH INSTITUTIONAL CHANGE: THE EXAMPLE OF SOCIALLY RESPONSIBLE INVESTMENT

RESEARCH QUESTION	Why did the transformation of practices of asset management companies differ between equity and fixed-income investment?
THEORIES IN-USE	<ul style="list-style-type: none">- Institutional theories- Pragmatism- Epistemic object
RESEARCH METHODS	<ul style="list-style-type: none">- Participative observation- Semi-structured interviews (8)- Secondary data and documentary evidence
FINDINGS	<p>Differences between equity and fixed-income investment resulted from:</p> <ul style="list-style-type: none">➤ 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

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

Institutional Logics of Fixed-Income Investment

	Institutional Change 'SRI Mainstreaming'	SRI Logics	Financial Logics	Development Logics
Initial Stage	Selecting the most socially responsible issuers maintaining good financial performance	Favoring the most socially responsible issuers	Maintaining good financial performance	Meeting clients' demands
Transformation Stage	SRI appears to be incompatible with fixed-income's institutional logics	Integrating SRI criteria without endangering financial performance	Lowering SRI constraints which threatens financial performance	Selling funds
Final Stage	SRI Mainstreaming cannot be integrated in fixed-income's institutional logics	Controlling the respect of SRI criteria	Being forced to manage with SRI constraints	Triggering change among clients' logics

Agenda

Introduction

Research Questions

Research Methods

Theoretical Framework

Articles Overview

Conclusion

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

THANK YOU

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APPENDICES

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