Ethical Investment

Processes and mechanisms of institutionalisation

in the Netherlands

1990-2002

Céline Louche

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Ethical Investment

Processes and mechanisms of institutionalisation in the Netherlands, 1990-2002

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By

Céline Louche

born at Lyon, France

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Acknowledgements

A dissertation is like a garden. The researcher is the gardener who brings a certain structure and meaning to it, but does not own the garden. It was not sunny everyday in my garden. Some days were foggy, rainy or even stormy. But every gardener would probably tell you that the vagaries of the weather are indispensable to have a nice and exciting garden. They bring diversity and tumult, fear and joy, disappointment and satisfaction.

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Chapter 1 – Introduction

What is the potential of ethical investment to contribute to sustainable development? This question is the starting point of this dissertation.

Ethical investment is changing. In the Netherlands, it started at the beginning of the 1990s. At that time it was a marginal activity offered by very few social or ethical financial institutions under the impulse of specific groups of investors such as churches and environmentalists. A decade later, every major Dutch bank offered an ethical investment fund. However they did not call it 'ethical' but 'sustainable'. They did not carry the social and environmental screening themselves but subcontracted it to rating organisations. A number of other changes had occurred; these are related to the criteria, the structure, and the actors involved.

One major change has been the transformation of ethical investment from an activist movement into a commercial project in which mainstream financial institutions have become a dominant actor. By becoming a mainstream product the ethical investment community has lost some of its capacity to be critical as well as its ideological strength. But on the other hand investments under ethical screens have increased and may very soon reach the necessary critical mass to affect corporations. Criteria have become understandable and applicable for companies rather than idealistic and disconnected from business reality. The transformation of ethical investment has softened the rebellious and activist side of the activity but it has also created a new potential to influence corporations' behaviours and practices.

From this observation emerged the two-fold desire to understand the change that has been taking place within the field of ethical investment and to investigate more specifically one group of actors of this field, namely corporations.

1.1 Ethical investment: construction of an institutional field

Ethical investment is becoming an institutional field, that is a set of organisations "that, in the aggregate, constitute a recognised area of institutional life" (DiMaggio & Powell, 1983) and which "attempt to carry on a common enterprise" (Scott, 2001). Institutional fields do not emerge fully formed; they evolve over time through a process of institutionalisation “by which social process, obligations, or actualities come to take on a rule like status in social thought and action” (Meyer & Rowan, 1977b). According to DiMaggio and Powell (1983) institutional fields are characterised by a higher level of interaction among organisations of the field, the development of clear field boundaries, an increase in the amount of information that organisations within the field must process, and development of a mutual awareness and a common meaning system by members of the field.

The origins of ethical investing go back to the 18th century in the US. For hundreds of years, many religious investors whose traditions embrace peace and non-violence have actively avoided investing in certain kinds of enterprises, the so called "sin" stocks - alcohol, tobacco, weapons and gambling. In the 1970s a series of social and environmental movements started to show interest in this type of investment. In the late 1970s, the concept of social investing began to attract a considerably larger group of American investors, mainly owing to concerns about South African racial policy. Ethical investment took on a new form: it became a social movement through which citizen groups expressed their disagreement about companies’ misbehaviour. As a social movement, ethical investment was not only a reaction, but also an attempt to change social order or social structures (Tarrow, 1998).

In the 1980s ethical investment arrived in Europe and once again changed form. It developed into a commercial product involving new types of actors, new organisations, new criteria and new values. Ethical investment funds suddenly became very popular among financial institutions. In 1984 the first ethical investment fund was launched in the UK, Friends Provident Stewardship. Statistics from August 2001 estimate the total for retail funds screened using ethical criteria at 4 billion pounds sterling (EIRIS, 2001) – nearly 2,000 times the original estimate made by City Observers when the first ethical fund was launched. In August 2001, there were 60 ethical funds in the UK (EIRIS, 2001). In the Netherlands the first ethical fund, ‘Het Aandere Beleggingsfonds’, was set up in 1991. In 2001, the Netherlands counted twelve ethical funds representing around 1,684 million Euro (SIRI Group, 2002), meaning that most of the major Dutch banks offered an ethical investment fund. Pension funds – who own a significant percentage of shares on the stock market funds – are also showing a growing interest. A UK Social Investment Forum survey published in October 2000 found that 59% of the largest pension funds, representing over £230 billion of assets, had incorporated social responsibility issues into their investment strategies (Eurosif, 2003).

With the increasing demand for ethical investment funds emerged a new type of organisation, namely the rating organisations. In 1983, the Ethical Investment Research Service (UK based) was the first rating organisation set up in Europe. The Dutch rating organisation, Triodos Research, started its activity in 1997. In November 2001, Europe counted more than 19 organisations providing social and environmental screening of companies. Some are new organisations while others are established providers of corporate governance services who have expanded their range.

Two other major events marked the development of ethical investment. In 1999, the Dow Jones Sustainability Index was launched, soon followed by the FTSE4Good index in 2001. Both are market indices integrating social and environmental dimensions. They are managed by well known indices providers. Although they are not the first market indices including such aspects, e.g. Domini 4000 Social Index in 1990, they have had a significant impact on the business community. The second event is the enforcement of the UK SRI Pension Disclosure Regulation in 2000 under which pension funds are required to disclose whether or not they use social and environmental criteria in the management of their fund.

Ethical investment is no longer a social movement led by marginal groups but it has become a mainstream activity dominated by financial institutions. The changes that are taking place within the field of ethical investment present some characteristics of institutionalisation. Not only structural change has taken place but also cultural change. In its early age, ethical investment referred to ethics and religion, but in the 1990s, it shifted to sustainable development and corporate social responsibility. These two concepts have become part of the common language of the ethical investment community. How did this happen? How did financial institutions and global social structures provide conditions for the emergence of ethical investment? What kind of actors crafted ethical investment standards, with what motives and purposes, and through what modes of activity? What implication did this have on the activity of ethical investment? And what does it add to the potential of ethical investment to influence corporations to change towards sustainable development?

1.2 A quest for legitimacy

Ethical investment defines or delimits the range of behaviour and activities considered ethically correct. Ethical investment screening assesses a company's congruence with a set of values and norms that have been socially constructed through a process of interaction between actors. Its institutional mechanisms range from formal arrangements to informal conventions and customs regarding the ethical screening and selection/exclusion of companies. Such arrangements are meant to distinguish between companies but can also affect corporate legitimacy.

Legitimacy is a process that confers organisations a certain recognition from social actors. Through the legitimation process social actors accept or endorse the organisation's means and ends as valid, reasonable and rational (Baum & Oliver, 1991; Meyer & Scott, 1983). Meyer and Rowan (1977) argue that legitimacy is necessary to ensure the survival of organisations. It is a way to demonstrate that they act according to a collectively valued purpose in a proper and adequate manner (Meyer & Rowan, 1977a). Legitimacy provides a justification for the organisations' behaviour and practices. Thereby it protects the organisations from having their conduct questioned. A legitimate organisation is one that is perceived to be pursuing socially acceptable goals in a socially acceptable manner; normative quality, efficiency and performance alone are not sufficient (Ashforth & Gibbs, 1990).

Legitimacy and efficiency do not necessarily conflict. They may sometimes pull the company in two opposite directions, but they are both essential for the survival of an organisation. The challenge is to find an acceptable balance between the two. Moreover not all organisations seek the same degree of legitimacy. Institutional theorists have been criticised for their deterministic approach, viewing legitimacy as a source of constraint for organisations. Other authors offered a more strategic approach to legitimacy (Ashforth et al., 1990; Oliver, 1991; Suchman, 1995). They suggest that organisations adopt specific strategies according to their internal objectives. Organisations keep a certain degree of strategic freedom.

Corporate social responsibility has been a growing issue for corporations. There are increasing pressures from governmental, intergovernmental and non-governmental organisations on corporations to show a commitment towards social and environmental matters. Ethical investment, by assessing corporate social and environmental performance, contributes to these pressures. Excluding a company from an ethical investment portfolio implies that the company's behaviour or/and activity is not sustainable and incongruent with social expectations. It may therefore affect its legitimacy. In such a case, a corporation is likely to take action to ensure its continued legitimacy and thereby change its practices and behaviour to fit the requirements.

1.3 Research questions

This dissertation addresses **two research questions**:

1) *What are the nature and characteristics of the institutionalisation process of the field of ethical investment?*
2) *How do corporations respond to the pressures exerted by ethical investment?*

As was shown in Section 1.1, ethical investment started as a social movement. Groups of people with definite interests wished to fight for specific interests. Today the nature of the battle seems to have changed. From an alternative social movement, ethical investment has acquired a social recognition, that is a public awareness of its legitimate place and purpose in society. The ethical investment movement has managed not only to maintain itself over time, but also to grow. Ethical investment has become an organisational field, that is a set of organisations that constitute a recognised area of institutional life (DiMaggio et al., 1983). The objective of the first research question – *investigating the institutionalisation of the ethical investment field* – is to study the institutionalisation of the ethical investment field in the Netherlands. Fields are not only organisations that produce 'outputs' but also organisations that supply resources, effect constraints, or pose contingencies (DiMaggio, 1983). Together these organisations define the broader field logics, governance institutions, and activity (Fligstein, 1996; Hoffman & Ventresca, 2002; Scott, 1991). The formation of the ethical investment field creates specific dynamics and mechanisms that need to be explored to understand the pressures it can exert on corporations.

The second objective – *exploring corporations' responses to the pressures exerted by ethical investment* – focuses on one specific actor of the ethical investment field. Corporations are at the very centre of ethical investment. They are screened and benchmarked by rating organisations and are potential investment opportunity for investors. Previously shareholders paid very little attention to environmental and social matters and have always been considered as primarily interested in, and focused on, financial performance. With the emergence of ethical investment, corporations have been facing a new type of shareholders who are asking increasingly more questions unrelated to financial performance. They are also screened by a new type of rating organisations that write company sustainability profiles. The institutionalisation of ethical investment has created pressures on companies. Oliver (1991) argues that organisations respond strategically. The range of strategic responses varies from conformity to resistance, from passive to active, from impotent to influential, and from habitual to opportunistic depending on the institutional pressures exerted (Oliver, 1991). The second research question explores how corporations perceive and deal with ethical investment.

1.4 Research approach

Ethical investment has been the subject of attention by many scholars. Most of the studies have investigated the financial consequences of investing ethically, most of them showing a positive impact. This has been by far the major area of research related to ethical investment (Alexander & Buchholz, 1978; Bauer, Koedijk, & Otten, 2002; Gottsman & Kessler, 1998; Luther & Matako, 1993; Meulen & Soppe, 1997; Moskowitz, 1972; Mueller, 1991, 1994; Perks, Rwalinson, & Ingam, 1992; Snyder & Collins, 1993).

The dominant claim is that ethical investment provides higher financial returns than regular funds (Luther, Matako, & Corner, 1992; Mallin, Saadouni, & Briston, 1995; Snyder et al., 1993; Social Investment Forum, 1998). A number of studies show inconclusive results either because of a lack of significant statistical difference between the returns of ethically screened and unscreened universes (Diltz, 1995; Sauer, 1997) or because of sector and style biases (Louche, 1998; Pava & Krausz, 1996). Very few studies conclude that ethical funds under-perform (Mueller, 1991).

This dissertation contributes to the literature on ethical investment by proposing a new approach and new research areas. In the thesis ethical investment is looked at as an organisational field. A ‘field’ is “an analytical construct” (DiMaggio, 1983) which definition and specification depend on the phenomena studied. It is a way to construct a social universe (in reference to (Bourdieu, 1993)). A field has “its own norms governing conduct, values inducing behaviour, and the rewards determining production” (Ferguson, 1998). It translates external phenomena into its own terms for the use of its constituents. The concept of field offers a way to analyse the complex and dynamic configuration of ethical investment.

The dissertation investigates field-level dynamics, collective rationality and the behaviour of individual organisations. It is an attempt to link the micro and macro levels of analysis. It focuses on processes and mechanisms that contain opportunities for change. Mechanism is a key aspect of the research as it makes it possible to explain and understand what is observed (Elster, 1989; Hedström & Swedberg, 1998). Moreover it provides an account of how complex social processes occur, with a focus on specifying micro-translations that make actors and activity more visible (Olson, Ventresca, & Stevenson, 2003).

The research focused on the development of ethical investment in the Netherlands. Empirical data were gathered by several means. The research is based on a five-year participation-observation in a Dutch rating organisation, Triodos Research. The observation-participation provided a very rich insight into the activity and practices of the field. It gave access to internal meetings and documents, discussions with practitioners, clients and other actors involved in the field, participation to various conferences, and the database of the rating organisation. Another important source of data is a series of interviews with key players of the field: fund managers, managers from stock-quoted corporations, sustainability analysts from rating organisations, and the director of VBDO (Dutch Association of Investors for Sustainable Development). The third source of empirical data consists of publications related to the field of ethical investment (articles, brochures, reports, etc), the various ethical funds investigated in the Netherlands and the companies studied (annual reports, websites, newspaper cuttings, etc).

The empirical data focus on several aspects. Firstly, how actors of the field perceive and describe ethical investment, both the broader historical context and the more immediate personal one. Secondly, what stimulated their involvement in the field. Thirdly, how do actors see their role within the field. Fourthly, how do they talk about the activity of ethical investment. Fifthly what do they do and with whom do they have contacts. And finally, what do they say others do.

The data collected was organised in one in-depth case study, the Triodos case, and six smaller case studies, six Dutch corporations. The data was analysed in a first stage by being classified into categories and themes, and in a second stage by employing data displays such as thematic lists, designed to help organise and interpret data (Miles & Huberman, 1984). A theoretical framework guided the process of data reduction.

1.5 Structure of the dissertation

The personal experience in the field led to certain observations that raised numerous questions, which needed to be organised and structured in order to become understandable. The theoretical perspective provides a specific lens for addressing the research questions. Combining the observation participation with the theory raised a whole series of new questions. It was decided that the structure would follow the chronological development of the research project.

Chapter 2 presents the Triodos Case. This case study was the inspiration behind the research and has been a major source of data and knowledge about ethical investment. It describes the organisation and the reasons why Triodos Bank decided to launch an ethical investment fund. It chronicles the development of the fund over a period of five years as well as the emergence of the rating organisation called Triodos Research. The chapter introduces the research topic – ethical investment – but also identifies and defines the issues addressed in the research. It also points out that it is necessary, first of all, to approach the subject with a theory that allows one to study processes and mechanisms and, secondly to consider the activity in a broader context, both in time and space.

Chapter 3 develops the general theoretical framework based on institutional theory. Chapter 4 introduces the approach and methods for the collection and analysis of the empirical data.

Chapters 5, 6, and 7 present and explore empirical data that improve our understanding of the institutionalisation of the ethical investment field. Chapter 5 provides descriptive and analytical information about the international and institutional contexts in which ethical investment developed. Chapter 6 investigates the institutionalisation of ethical investment in the Netherlands. Chapter 7 explores corporation's responses to ethical investment. It presents six Dutch corporations from three different sectors of activity.

Building on the data and analysis of previous chapters (2, 5, 6, and 7), Chapter 8 draws the conclusions of the dissertation and proposes some arguments about the potential of ethical investment to change corporate practices and behaviour. It discusses the implications and limitations of the findings and suggests direction for future research.

The structure of the dissertation can be described as a continuous switch between the micro and macro view of the ethical investment field. It starts at the micro level by presenting one specific case, Triodos. It moves to the macro level by describing the international and institutional contexts in which ethical investment developed. It then goes to the meso level by focusing on the development and evolution of ethical investment in the Netherlands. It moves back to the micro level by exploring corporations' responses to ethical investment. Finally, in the concluding chapter the dissertation attempts to link the macro, meso and micro levels by adopting a more holistic approach. The structure of the dissertation is represented in Table 1.

Level of analysis		**Micro**	**Meso**	**Macro**
Chapter I	*Introduction*			
Chapter II	Triodos Case			
Chapter III	*Theoretical framework*			
Chapter IV	*Methodological considerations*			
Chapter V	Institutional and international contexts			
Chapter VI	The Dutch case			
Chapter VII	Corporations' responses			
Chapter VIII	Conclusion			

Table 1 – Dissertation overview

Chapter 2 - Triodos Case

2.1 Introduction

Chapter 2 presents the case of a Dutch bank, the Triodos Bank, that in 1997 decided to launch an ethical investment fund called MeerWaarde Fund. For this purpose, it also set up a research department to screen stock quoted companies according to social and environmental criteria. A few years later, in 2002, Triodos Research split up into two independent organisations, Dutch Sustainability Research (DSR) and Triodos Advisory Services (TAS). DSR is a fact-finding organisation – its activity focuses on conducting company screenings, while TAS is a consulting organisation supplying sustainable investment research and advice to a wide range of stakeholders. For practical reasons, it is always referred to as Triodos Research in the dissertation except in specific cases where the distinction between DSR and TAS is relevant. In such cases it will be specified.

Triodos constitutes an interesting case to study the development of ethical investment in the Netherlands. It does not only provide an example of ethical investment activity but also of the networks that have been built around it and the way it has developed over time. It leads to a better understanding of the process and the arena of ethical investment.

The content of this chapter is based on a five-year involvement in the bank as observer-participant (see Chapter 4 for more details on participation-observation). The objectives of the chapter are firstly to introduce the activity of ethical investment: what is it, how does it work and which actors are involved and, secondly, to further develop the two research questions presented in Chapter 1.

This chapter chronicles the emergence and development of the MeerWaarde Fund and Triodos Research from the mid-1990s until the end of 2002. It reports inside views and details on three sub-cases: a bank, an ethical investment fund, and a rating organisation. The three sub-cases are presented independently in three distinctive sections although they are interwoven. For each of the sub-cases the centre of attention differs. The Triodos Bank sub-case focuses on the identity of the organisation. The Triodos MeerWaarde Fund sub-case focuses on the management of the fund, that is the objectives, policy, and actors.

And the Triodos Research sub-case focuses on the development of the activity of the rating organisation. The three sub-cases together provide a good picture of the development of ethical investment activity, the actors involved, and the translation of an idea into practice. Triodos is an omni-present element in the whole thesis.

2.2 Triodos Bank

Founded in 1980 in the Netherlands, Triodos Bank finances companies that create social added value and care for the environment. It engages in very specific areas where financial institutions are not active. The philosophy of the bank is to use money in an ethically aware manner and its identity and strategy are reflected in the key words of transparency, socially responsible businesses and sustainable banking. It promotes a different type of relationship with customers in which they have a much clearer idea of what their money is used for. Triodos is an international bank with offices in Belgium, UK and The Netherlands. They belong to national and international networks of social and environmentally oriented financial institutions. The bank has had an impressive growth especially since the mid-1990s. From 1995 to 2001 the total balance sheet and the number of employees have been multiplied, respectively by 5.6 and 3.6. Throughout the period, Triodos Bank has managed to keep a very strong and specific identity.

This section presents Triodos Bank: its structure, activities and especially its identity. The engagement and commitment of the bank make it a very characteristic organisation that has an important effect on the way activities are conducted.

2.2.1 A brief history

It all started in 1968 when Adriaan Deking Dura, a personnel manager, Dr Dieter Brüll, a professor in tax law, Lex Bos, a senior organisational consultant, and Rudolf Mees, a banker formed a study group to see how money could be handled consciously (Triodos Bank, 2000b). They were, as Peter Blom, current managing director of Triodos Bank, described them "practical idealists" (Blom P., Managing Director (MD), 2001). Three years later, in 1971, Triodos Foundation was set up to finance social and environmental renewal and innovation through loans and gifts (see Table 2 for an overview of the key dates of the development of Triodos Bank). In 1973 the Triodos Guarantee Fund started to mobilise gifts and loans for promising new social initiatives and enterprises. Investing and life insurance were not considered because there was very little interest at that time for these activities among the public. According to the managing director, "*at that time people didn't invest on the stock market, at least in the Netherlands, and I think in all Europe... Even life insurance was not really a banking activity*". Investing started to be an issue only later in the seventies. The aim of Triodos was transparency: "*We wanted more transparency in the banking system, more transparency for depositors. We wanted to let the depositors know where their money was going to, for what it was used*." (Blom P. (MD), 2001)

In 1980 Triodos Bank was able to raise enough capital to start as a fully licensed, independent bank in the Netherlands. It was allowed to carry out all banking activities. Triodos Assurantiën, an insurance brokerage service was launched in 1986.

The 1990s were a decade of important developments and growth for the bank. First of all the expansion of the bank: in 1993, Triodos Bank opened a branch office in Belgium, and in 1995 Triodos and Mercury Provident merged their activities, forming the UK branch of Triodos. And secondly numerous funds were created. In 1990 two products were launched: the first green investment fund, Biogrond Beleggingsfonds, listed on the Amsterdam stock exchange, and the MeerWaarde Polis (Added-Value policy), a life insurance product launched in partnership with Delta Lloyd, an insurance company. The investments of the MeerWaarde Polis, mainly listed companies, were screened according to social and environmental criteria. Then other funds were launched: in 1993 Het Windfonds (a Dutch Wind Fund), in 1994 the first North-South Funds that focused on microcredit[1] and fair-trade finance[2], in 1997 the MeerWaarde Fund (an ethical investment fund listed on the Amsterdam stock exchange), and in 1998 the Solar Investment Fund.

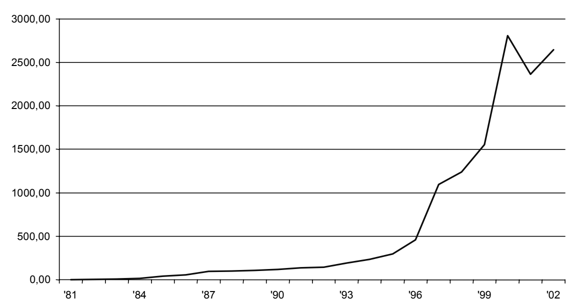
1971	Triodos Foundation was set up
1980	Triodos Bank NV was founded
1990	Biogrond, the first green investment fund
	Meerwaarde Polis, life pension insurance product
1993	Opening of Triodos Bank Belgium
	Dutch Wind Fund
1994	First North-South Funds
1995	Opening of Triodos Bank in the UK and launch of UK Wind Fund
1996	Het groene Beleggen Fund
1997	Triodos MeerWaarde Fund
1998	Solar Investment Fund
2000	Triodos MeerWaarde Aandelen Fund
	Triodos MeerWaarde Obligatie Fund
2001	Triodos Venture Capital Fund.
	Triodos Values Fund, an ethical investment fund in Belgium.

Table 2 - Triodos Bank, Key dates

[1] Micro-credit refers to small loans made to low-income individuals to sustain self-employment or to start up very small businesses Canada, D. o. F. 1999. ***Reforming Canada's Financial Service Sector***.

[2] Fair Trade is an alternative approach to conventional international trade. It is a trading partnership which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning.

The growth of Triodos Bank has been extremely fast and impressive. Two elements show this very clearly. In 20 years the net profit of the bank has been multiplied by 18026.3 with two important peaks, in 1996 and 1999 (see Figure 1). In 2001 net profit, for the first time in the Bank's history, decreased (by 15% compared to 2000). It is interesting to note that the decrease was less strong than the average decrease in the financial sector. However the total balance sheet kept growing with an increase of 23% compared to 2000. In 2002 net profit grew again. In numbers of employees the growth has also been impressive (see Figure 2). In 21 years the total number of employees has been multiplied by 23, from 9 in 1981 to 206 in 2002. There are two important growth peaks, one in 1994 and one in 1999.



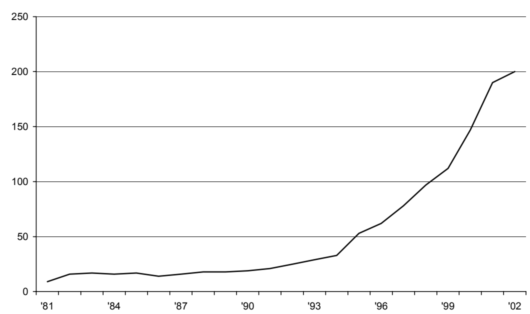


Figure 1- Triodos Bank, Net Profit 1981 2002(thousands of euros)

Figure 2 - Triodos Bank, Number of Employees 1981-2002

The ongoing growth of Triodos Bank demonstrates the continuing popularity of sustainable savings and green investment and the increasing demand for lending in very specific sectors such as nature & the environment, the social economy and culture.

2.2.2 Identity and mission

From the start Triodos Bank took a distinctive route: "the anthroposophic movement and the movement for religious renewal, The Christian Community, were the sources for the people who founded Triodos bank" according to the preamble of the Articles of Association of Triodos Bank. Anthroposophy has been an important basis for the work of Triodos bank and is now presented as a "*free source of inspiration*" (Triodos Bank, 2003).

What makes Triodos Bank distinctive is its identity and its commitment to social, environmental and cultural goals. The Bank strongly believes that social and environmental interests should be taken into account in economics decisions. Finance and economics cannot be viewed in isolation from society as a whole. Triodos Bank wants to be more than a mere financial instrument, 'more than just money' (Triodos Bank, 1999). Triodos Bank seeks to contribute to the social economy by investing in sustainable economic development, both socially and for the environment. It wants to "*reconnect money with the real economy*", as the managing director says, by seeking a new balance between human and natural values on the one hand and money and material goods on the other (Triodos Bank, 1999). The bank wants to "*contribute in a sustainable way to a better life for all" through its investments*" (Triodos Bank, 1999). Through its commitment, Triodos Bank is engaged in financing activities that regular financial institutions scarcely consider.

The bank's name stems from the Greek 'Trihodos', which stands for tripartite or threefold path. In its brochure of 1992, it was translated as: people freely develop and exercise their individual abilities; every human being as an autonomous co-worker can be part of an organisation; a sustainable economy is developed through suitable associations, that take into account the interests of mankind and the earth. It is interesting to note that the translation of the threefold approach changed over time. In 1997 it referred to "*a view of society which distinguishes three areas: education and culture, human rights, and economics*" (Triodos Bank, 1997a). In 2003, it changed again and referred to the social, environmental and cultural spheres (Triodos Bank, 2003, January). The 2003 version refers clearly to the concept of sustainability with one additional dimension, culture.

Over time the ethical dimension appeared in Triodos Bank documents. In 1992 ethics was not to be found in the Triodos Bank Brochure. In 1997, they presented themselves as a 'social bank' and in 2003 as a 'social and ethical bank'. In the Annual Review of 2000, the managing director talked about "*good*" and "*bad*" businesses which, although not directly mentioned, makes one immediately think of ethics (Triodos Bank, 2000b). It seems that in 2003 the ethical dimension has become a central aspect: "*Social and ethical – as well as financial – perspectives are at the heart of Triodos' business practices*" (Triodos Bank, 2003, January).

Triodos' mission is the following: "*Triodos Bank seeks to contribute to a more humanly-oriented society - one which respects people, the environment and culture*" (Triodos Bank, 2000b). In practice it is translated as supporting only businesses and projects that are socially, ecologically and financially sustainable: "*…projects which benefit the community, enhance the environment and respect human freedom*" (Triodos Bank, 1997b). <u>Social and environmental responsibilities</u> are key dimensions for Triodos Bank as much internally as externally. According to the managing director, "*socially responsible action means making choices. For Triodos Bank, such choices are as much to do with the initiatives financed by the bank as the way the bank runs its business*" (Triodos Bank, 2000b). The managing director notes that socially responsible depends on the context, "*it changes over time and varies from country to country. …Standards also change with social attitudes*". In his talk on social responsibility, the managing director refers to good business and bad business. "*Good business not only means making a profit, but also realising that you are dependent on people and the environment. …You will not be interested only in your own short-term profit, but you will also be able to justify your actions in the long term*".

2.2.3 Organisational structure

Triodos Bank is a public company not listed on the stock market. The shares are wholly owned by a Trust (the Foundation for the Administration of Triodos Bank Shares) which is funded by depository receipts (non-voting shares). The Board of this Trust can vote on key issues but has to take into account the interests of the non-voting shareholders, the bank as an institution and the special mission of the bank. Triodos has offices in The Netherlands, Belgium and the United Kingdom. Triodos Bank Dutch office and Triodos Belgian office both manage an ethical investment fund, the MeerWaarde Fund in the Netherlands and Triodos Values Fund in Belgium.

Triodos Holding NV and Triodos Bank NV are two legally separate organisations. They are closely linked through personal contacts and friendships. Triodos Advisory Services (TAS) is a subsidiary of Triodos Holding NV and Dutch Sustainability Research is a Triodos Venture for 80% (10% being hold by Mees Pierson and 10% by PGGM). See Annex 1 for a graphical representation of the structure of Triodos Bank and Triodos Holding.

2.2.4 Strategy and activities

Triodos Bank is a retail bank focusing on private clients and providing loans to small and medium size businesses, projects and institutions with social, environmental and cultural added value. It exclusively finances the development of renewable energy sources (solar, wind), organic agriculture, art and culture, education, health care, protection of the environment and nature conservation. Triodos Bank also plays an active role in financing projects in the developing world (micro-credit). Triodos Bank is active in the following sectors (see Figure 3 for an overview of Triodos Bank activities from 1996 to 2002):

- Social business: employment projects, care for immigrants, start-ups, small craft companies and companies for which employee participation is an important objective.
- Housing and Other: new types of dwelling and social housing have always been an important sector for Triodos Bank. A new addition is ecological buildings.

- Nature and the Environment: this sector includes organic farming, renewable energy projects (such as wind turbines), recycling activities and ecological buildings.
- Culture and Society: including health care, education, artists and related cultural projects such as youth theatres and special film productions.
- North-South (Development co-operation): Triodos is increasingly active in financing projects in developing countries, including small, local financial institutions (serving micro and small businesses), solar energy projects and fair trade.

Triodos Bank has developed specific financial instruments over the years, among which various investment funds. *Triodos Groen Beleggen Fund* invests in wind energy and agricultural land for organic farming respectively. Both funds attract their capital from the general public (*Biogronds Beleggingsfonds* is quoted on the Dutch stock exchange). The Hivos-Triodos Fund was founded with Hivos (a Dutch NGO supporting projects in developing countries). It provides loans and guarantees to organisations, enterprises and small financial institutions in developing countries. The *Triodos-Doen* Fund, founded with the Doen Foundation (which receives its funding from the National Postcode Lottery), makes loans and guarantees to projects in the fields of nature and the environment, third world co-operation and promotion of economic independence for refugees.

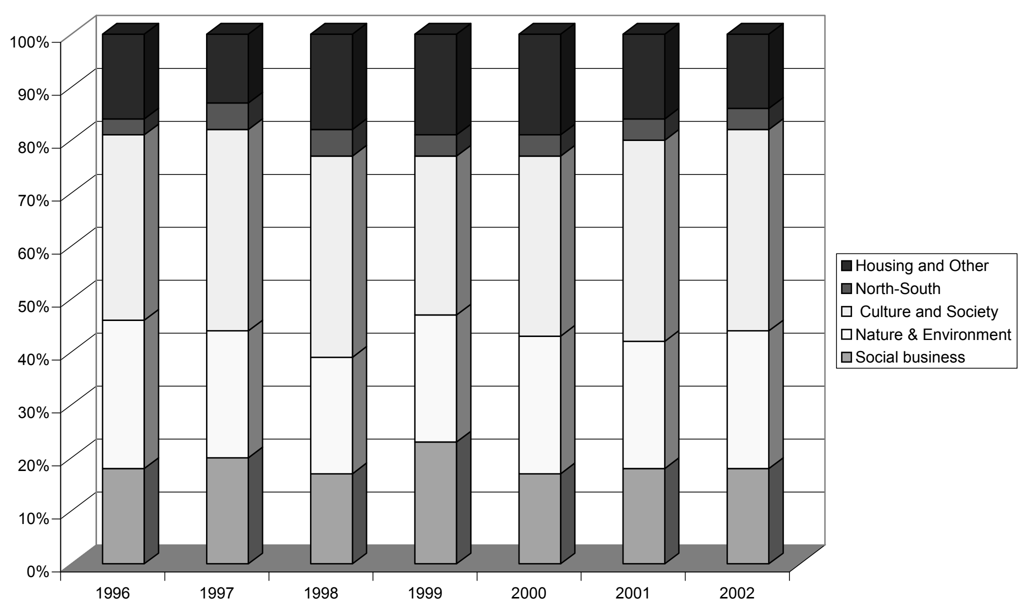


Figure 3 – Triodos Bank, Areas of activity

Triodos bank has been actively involved in the setting up of the Green System in Holland. It was introduced in 1992, and launched in1995, as a joint operation between the Dutch government and the financial sector. Dutch Green Funds have the characteristic of offering a unique tax incentive scheme. Private investors are not taxed on their interest and dividend income, provided that this derives from investment in certain green investment funds. These green investment funds, in turn, have to invest in certain green projects. Table 3 shows the distribution per activity of the green projects as well as the volume of the green funds from 1995 to 2001. The objectives and activities of green investment funds must primarily be the provision of funds to green projects, that is projects that are important for the environment; this includes forestry and nature projects (Bouma, Jeucken, & Klinkers, 2001; Scholtens, 2001). At least 70% of the total assets of green investment funds must be invested in green projects. The tax authority can assess, on request, whether a credit or investment institution meets the criteria that have been set and whether the fund can be designated as a green investment fund. To be eligible projects have to be new, though a fundamental improvement to an existing project can also be regarded as a new project. The main categories of green projects are projects in the fields of nature, forestry, landscape and organic farming, sustainable energy, housing, farming, ‘green label’ animal housing and greenhouses, and others related to recycling, water purification, CO_2 recirculation and energy and nature. The designated categories are updated periodically. Initially projects had to be in the Netherlands. But the 1998 tax plan announced an extension to projects in a limited number of less developed or Eastern European countries. For each project an individual request has to be submitted to the investment institution. The request is then issued by the Ministry of Housing, Physical Planning and the Environment and is valid for a maximum of 10 years (30 years for an investment in forestry and nature). It can be renewed.

Triodos was one of the pioneers in green investment. It launched its first green fund in 1990, the *Biogrond Belegging Fund* (organic and biodynamic agriculture), which was listed on the Amsterdam Stock Exchange. Then in 1993 the bank launched the Wind Fund and in 1996 the Groen Beleggen fund. All three were recognised by the Dutch government as a Green Fund under the Green Fiscal Regime. In 1998 the three green funds merge into a single, listed Triodos Green Fund. Lately, end 2002, Triodos Bank has played an important role in defending and supporting the Dutch Green fund system when the new Dutch government was planning to limit tax incentives.

Green project facility (1995-1999) (Scholtens, 2001)	
	%
Nature and forest	11.8
Organic farming	15.2
Energy	36.1
Housing	8.8
Other	28.1
Total	100

Green funds: Volume (VBDO, 2002) *million Euro*	
1995	4.260
1996	248.200
1997	325.816
1998	410.063
1999	601.286
2000	675.637
2001	759667

Table 3 - Green Investment funds in The Netherlands: Volume and distribution per activity

Another activity where Triodos Bank has been a pioneer is ethical investment. An ethical investment fund is different from a green fund. A green fund is defined by the Dutch parliament, its focus is on environmental aspects, and it aims at financing small projects. In comparison an ethical investment fund focuses on environmental and social aspects, and concerns the buying (selling) of common stocks from corporations quoted on the stock market. Although they have for common aim stimulating socially responsible businesses, green funds and ethical funds are two distinguished types of investments addressing different markets and targets.

In the late 1980s, Triodos Bank started to think about developing a new product: private life insurance. At the time, it was a growing activity in the Netherlands that was provided exclusively by the government (Oosenbrug, 1999). The bank's first idea was to develop a health care product, that is an insurance policy where anthroposophic medicine was covered. Then it was decided to develop a life insurance policy, the *MeerWaarde Polis*. Because of its limited experience in investing on the stock market, Triodos Bank asked Delta Lloyd, an insurance Group, to do the asset management. Delta Lloyd was chosen as partner because Triodos already had much contact with this organisation and above all because they were receptive and enthusiastic about the idea. (Blom P. (MD), 2001). As a result the *MeerWaarde Polis* (Added Value Policy), a life pension insurance based on the philosophy of responsible entrepreneurship, was launched in 1990. Although it was a new activity, it was essential for Triodos that it should respect and reflect the organisation's values, that is transparency, social responsibility and sustainable banking. Therefore companies that would be part of the investment portfolio had to be carefully selected. At the beginning of the 1990s there was no experience with this type of investment in the Netherlands, and very little in Europe. According to the managing director at the beginning "*the selection of companies was based on feelings, common sense, and common knowledge*" (Blom P. (MD), 2001). The managing director in collaboration with an employee of the Bank did the selection of corporations. It was done in a very informal way based on their knowledge about for-profit organisations (Blom P. (MD), 2001; Jansen K. (ETB), 2000) Jansen K., Employee Triodos Bank (ETB), 2000). No corporation screenings were available at that time. This was the first experience in the Netherlands with what would later on be called ethical investment.

During the same period (beginning of the 1990s), the managing director of Triodos Bank, Peter Blom, was part of a group of people among whom were the association MEMO and some church groups. MEMO (1976-early 1990) was an association for socially and environmentally responsible businesses. This group of people wanted to invest on the stock market but were concerned about the way it was done. They came together with the project of creating an ethical trust fund, that is raising capital for investing in financial instruments (usually bonds and shares). This led in 1991 to the creation of the ABF fund.

At the very beginning Peter Blom was a member, together with other people, especially church groups and ASN. The development of the fund was rather difficult because at that time there was neither any experience nor a structure. As said Peter Blom, "*it was a kind of trial and error system*". Very soon after the setting up of the fund Triodos Bank's managing director realised that the values of the fund were not "*close enough to the values of Triodos*" although they were looking at environmental and social issues. He withdrew from the working groups and worked on a new project for an ethical investment fund within Triodos Bank. After a few years of research, in1997, the *MeerWaarde Fund* was created.

2.2.5 Conclusion

Triodos Bank chose an approach to banking that was different from that taken by mainstream financial institutions. Its commitment to social, environmental and cultural goals constitutes its identity and makes it a distinctive organisation. It strongly believes that finance can provide tools to achieve sustainable and equitable development but that this requires a re-construction of the Global Finance System where Solidarity can have a central place.

The bank started as a very small organisation. Nevertheless the values held by the bank seem to attract an increasing number of people. Since its launch, the bank has kept growing. The activities of Triodos are very specific. The focus is on private clients or small and medium size businesses, projects and institutions. It also provides financial products to people, organisations or causes that are most of the time excluded from the regular banking system. In the late 1980s, Triodos Bank started to develop a completely new activity. Instead of focusing on small and medium firms, it started dealing with big stock quoted corporations. This began with a life insurance product called Triodos *MeerWaarde Polis*, and then in 1997 an ethical investment fund was launched, the *MeerWaarde* Fund. This has brought a new dimension to the bank's activity. In this development Triodos saw an opportunity to spread its message to another sphere/level of the market. Triodos had two priorities: firstly to develop a product that would not deflect from its values, and secondly to encourage stock quoted corporation to move towards sustainable development. It was a big challenge for Triodos Bank. The next section is devoted to the *MeerWaarde* fund. It shows how the fund has developed and how the values of Triodos Bank are integrated and operationalised in the management of the fund.

2.3 Ethical investment: the MeerWaarde Fund

In the 1990s, influenced by a general trend in the financial sector, Triodos Bank started to consider investing on the stock market. Indeed, the stock market had become more popular at the beginning of the 1990s in the Netherlands. This constituted a completely new domain for Triodos Bank. At that time the primary focus of Triodos Bank was financing small projects or businesses, which involved very close contacts with its customers and an in-depth knowledge of all the projects financed. On the contrary, investment on the stock market focuses on listed, large companies such as Unilever and Shell, in which Triodos Bank would have a limited amount of shares. This meant quite important changes for Triodos Bank: a move away from local organisations to multinational corporations; from a total control over the projects involved to a very limited or non-existent control over large corporations; from a total to a partial assessment of the organisation; from the local to the international market; from concrete and visible results to a less perceptible and more abstract impact. As the managing director of Triodos Bank said, *"…it is not going in depth but rather broad…we have to realise that a small change in a big company is maybe the equivalent to developing a small project here in the Netherlands*" (Blom P. (MD), 2001). Managers of the bank saw in the fund the opportunity to influence big business and a way to spread the bank's message, that is respect for people, the environment and culture. The crucial issue was to let corporations know that investors do not only care about financial performance but also about social and environmental performance. An important question that was then raised was: '*How to do it'*?

The first move of Triodos Bank towards the stock market started in 1990 with the *MeerWaarde Polis* insurance policy. However the real take-off took place with the *MeerWaarde* trust fund called, launched in May 1997. It took seven years before Triodos Bank really got involved in ethical investment which, recognised the managing Director, is quite a long time. An important reason for the delay was that Triodos Bank wanted to be careful and find the appropriate way of getting involved in this activity: "*The main point was that we couldn't improvise*" (Blom P. (MD), 2001). It is only after a long period of investigation that the Bank decided to launch an ethical investment fund. The Bank faced the considerable challenge of engaging in this new activity without losing its strong identity. The development of this new activity was an important step for the Bank. Although it has never been its main activity, it has contributed to its expansion and offered new opportunities.

This section recounts the development of ethical investing within Triodos Bank, the questions and problems that it has raised, and the structure that has emerged to enable it to carry the activity.

2.3.1 Overview of the MeerWaarde Fund

The MeerWaarde Fund (Added Value Fund) is a mutual fund or unit trust. "A mutual fund is a company that brings together money from many people and invests it in stocks, bonds or other assets. The combined holdings of stocks, bonds or other assets the fund owns are known as its portfolio. Each investor in the fund owns shares, which represent a part of these holdings" (U.S. Securities and Exchange Commission, 2003). The fund was launched in May 1997. Until May 2000 the MeerWaarde Fund was a mixed fund. It was composed of shares (between 30 and 60%), bonds (between 40 and 70%), and liquid assets (maximum of 10%) (Triodos MWF, 1997). The 29th of May 2000, the structure was changed. In order to better satisfy its clients, Triodos Bank decided to offer a more flexible product. This entailed a reorganisation of the Triodos MeerWaarde Fund. It is now a combination of three types of investment products, from which clients can chose one of the sub-products or a combination of them, according to their risk aversion and investment strategy. The MeerWaarde Fund is the umbrella structure and consists of:

- Triodos MeerWaarde Aandelenfonds (fund B), composed entirely of shares;
- Triodos MeerWaarde Obligatiefonds (fund C), composed of bonds,
- Triodos MeerWaarde Mixfonds (fund A), a mix of shares (between 30 and 60%) and bonds (between 40 and 70%)

The specificity of the MeerWaarde Fund is the use of social and environmental screening in addition to financial screening for the selection of companies. Triodos Bank applies three types of screening related to social and environmental aspects:

- Exclusionary or absolute criteria: companies involved in at least one of the exclusionary criteria are excluded from the investment universe. These criteria may be turnover related, meaning that if a company derives more than a certain percentage (usually 5%) of its turnover from one of the activities which is classified as unsustainable, the company is excluded. The list of activities can vary from fund to fund. It often includes, for example, alcohol, nuclear energy, weapon industry, and animal testing. Criteria may be process related. Those criteria lead to the exclusion of the company if it is involved, without any regard to the percentage of turnover. It may include, for example, corruption, dictatorial regimes, and child labour.
- Comparative criteria: companies are screened according to series of criteria related to environmental and social aspects such as management, policy in place, and performance. Most of the time benchmarking is carried out during the comparative screening. Companies are compared and the best are included in the investment universe.
- Inclusionary criteria or sustainable activities: these refer to certain activities that are considered to have a special added value to society or/and a special contribution to

sustainable development such as environmental technology, bicycles, etc. Corporations that derive a significant percentage of their turnover from one of these activities are screened according to absolute criteria. If they pass the exclusionary screens, they are integrated in the investment universe.

The MeerWaarde Fund is an international and diversified fund (see Table 4). The fund does not focus on specific sectors. However the fund does not invest in corporations that are active in sectors that have a negative impact on society, or whose behaviour has a negative impact on society (Triodos MeerWaarde Fund, 2000). Over the years it has become more international: in 1997, the launch year, there were a majority of companies from the Netherlands and a minority form the US. Four years later there were corporations from seven different countries with a majority in the US (Dutch companies being the second most represented). Concerning the sectors of activities represented in the fund, their number went from four in 1997 to 13 in 2001, with the sectors Capital Goods, Information Technology and Telecommunication the more prominent ones. During the first years of the fund, diversification (both geographical and sectoral) was limited because the number of companies screened on social and environmental criteria was very limited. The fund developed in parallel with the universe of corporations being screened. As of April 2003, out of 465 companies screened for the MeerWaarde Fund, only 179 (that is 38%) were selected while 69% were excluded, either because of a low performance on social and environmental criteria or an involvement in unsustainable activity or behaviour.

Portfolio composition

	1997	1999	2001**
Bonds	75%	34%	-
Stocks	21%	61%	-
Liquid assets	4%	5%	-

Distribution per country

	1997	1999	2001*
Denmark			1%
France			5%
Germany		3%	
Mexico			3%
Netherlands	61.41%	69%	38%
Norway			0%
UK			3%
US	39%	29%	51%

Distribution per sector of activity

	1997	1999	2001*
Capital Goods	38%	7%	17%
Chemistry		7%	2%
Consomer goods		3%	11%
Construction		13%	
Diverse		6%	
Electronics		7%	
Energy supply			2%
Financial		9%	9%
Food		11%	4%
IT			15%
Media	31%	13%	11%
Paper/Publishing		1%	
Pharmaceutical/HC		13%	7%
Retail trade			2%
Services		3%	2%
Technology	13%		
Telecommunication	6%	3%	15%
Transport		5%	2%
Nb sectors	4	14	13

*Triodos Meerwarde aandelenfonds
**From 2000 the fund has changed of structure

Table 4- Portfolio of the MeerWaarde Fund 1997-1999-2001

The MeerWaarde Fund had a Total Intrinsic Value of 17,820 thousands Euro in 1997. It has been multiplied by 5.47 within 5 years to reach 97, 563 thousands Euro in 2002. Concerning the performance of the fund, in the period of May to the end of 1997, the

Added Value Investment Fund achieved a return of 2.80% compared to a return of 9.8% for the benchmark[3]. The main reason for this result was the predominance of fixed-interest securities over stocks during the first months of the fund's existence. This predominance was reduced considerably during the first quarter of 1998, resulting in a performance which is practically equal to that of the benchmark (7.6% compared to 7.7% for the benchmark). In 1998, the return on investments increased a great deal (10.9%) but in 1999 it decreased. During the year 2000, the structure of the fund changed. It was split up into three funds (bonds, share and mix). In order to make comparison with the former MeerWaarde Fund possible, only the mix fund is looked at in the table below. Although the performance of the MeerWaarde Mixfonds has not been very good over the past two years, it outperformed the benchmark which was negative in the past three years (see Table 5).

	Intrinsic value	Exchange value	Dividend	Returns	Benchmark *
1997	23.32	23.32	-	-	
1998	25.87	25.87	0.55	10.93%	
1999	25.32	25.8	0.3	-0.27%	
2000	25.48	26	0.6	0.78%	
2001	26.44	26.22	0.5	0.85%	-1.85%
2002	24.22	24.5	0.3	-6.56%	-11.5%

Table 5 - Triodos MeerWaarde Fund (1997:2000), and Triodos MeerWaarde Mixfonds (2001:2002) Returns Per share

2.3.2 Objectives and investment policy of the MeerWaarde Fund

2.3.2.1 Objectives

The sustainable investment fund of Triodos Bank NV, the MeerWaarde Fund, strives for capital growth in the long term. The investment policy is based on the ‘three Ps’ approach, meaning that the selection of corporations to be invested in is established according to criteria related to People, Planet and Profit: Profit refers to a sound return and risk level; People refers to human dignity, i.e. treating employees, clients, suppliers and the community in which the corporation operates in a responsible way; and Planet gives considerations to sustainability, i.e. treating natural resources, waste and the environment in a responsible way (Triodos MeerWaarde Fund, 2000). The People and

[3] The benchmark consists of 50% bond funds and 50% share funds and the customised benchmark is composed of 60% S&P 500 index and 40% FTSE 300 index.

Planet factors define the basic investment universe within which the Profit factor is used to select the final investment universe.

Through its ethical investment Triodos Bank wants to "encourage companies to behave in a more sustainable way"(Triodos Bank, 2001). The fund is a kind of commitment to promote and stimulate change towards sustainable development. In an interview the Managing Director said that "*Triodos MeerWaarde Fond gives the bank a way to encourage social responsibility in larger companies. The standards are clear – a company must be within the top 50% of best performing companies, socially and environmentally, to be included in the portfolio. This creates a mechanism to encourage companies to improve their performance. In this way, you let capitalism work for you*" (Triodos Bank, 2000b)

2.3.2.2 Investment policy

The investment policy aims at selecting companies that are leading the sector in which they are active regarding social and environmental matters. The fund distinguishes two categories of investments. On the one hand investments are made in corporations which, on the basis of their products and/or services, deliver a positive contribution to human beings and/or the environment (this refers to corporations that are active in the sustainable sectors).

Triodos considers that these companies have valuable social and/or added value. The screening is carried out only on exclusionary criteria. Companies that pass the exclusionary criteria are selected in the investment universe. And on the other hand investments are made in corporations in regular sectors such as media, capital goods, construction, etc. Companies of those sectors are first screened on the exclusionary criteria. Companies that do not pass the screening are excluded. Those that pass the screening are then screened on comparative criteria. Out of this screening corporations are given a score on their sustainable performance (their performance on social and environmental issues) and are ranked. The benchmark is done sector by sector. The top 50% of the companies are selected in the investment universe. The policy of MeerWaarde is to invest only in corporations that are leading in their sector with regard to social and environmental management. The screening process is represented in Figure 4 and further explained in section 2.4.

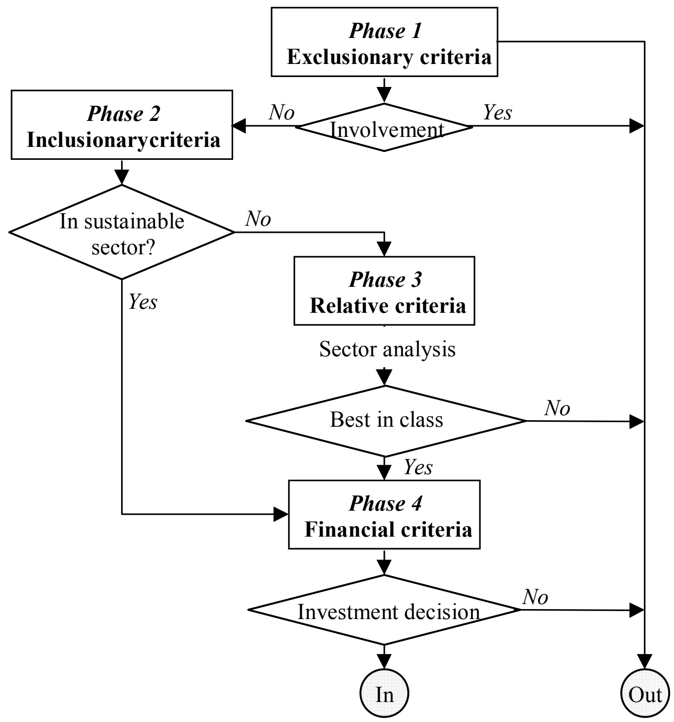


Figure 4- MeerWaarde Fund- Selection method

2.3.2.3 Screening process

The screening processes can be divided into three major elements:

1. Collection of information on companies

Information from publicly available sources is collected, such as company's reports, websites information (this is a crucial source of information), reports from NGOs, trade organisations, governments, sector organisations, etc. All available information is gathered together and analysed by sustainability analysts.

Sustainability analysts contact companies in order to conduct either a face-to-face interview or a telephone interview. The relationships between companies and rating organisations may differ. Company profiles are send to each company screened and feedback is asked.

Additionally, third parties (NGOs, trade unions and all relevant organisations) are contacted according to the sector of activities and the need for complementary information.

2. Organisation of the information into a company profile

The information gathered is transformed into a company profile containing the following categories:

- Information organised thematically (description of the company's activities and social and environmental practices)
- Information on the involvement of the company in specific activities or practices, such as weaponry, child labour.

3. <u>Selection of companies</u>

On the basis of the results of the screening and rating, companies are selected (or excluded) according to standards and processes set up beforehand by the fund manager. For the selection two methodologies are used: 'best in class' and 'sector study'. Both can be used either independently or jointly, depending on the fund manager's request. The second methodology consists of comparing companies within the same sector. Best in class methodology means selecting a certain percentage of the best companies. For example if 100 companies are screened and ranked, only the 50% best will be selected, that is only 50 companies. With both methodologies, companies are given scores and ranking on three aspects: people, planet and transparency, which altogether form the overall sustainability score.

2.3.3 Development of the fund

<u>1995-1997:</u> Development of the MeerWaarde Fund project

The MeerWaarde Polis was the first step into the world of stock market investment. The insurance policy was rather successful. A few clients of the Bank wanted more than deposit, they wanted to get involved in the stock market. Some of them were already doing this with other banks, but were concerned about the way their money was being invested; they wanted to invest their money in a "*better*" way (Blom P. (MD), 2001). Triodos heard the message and already fortified with the experience of the green funds and life insurance, the Bank's board of management accepted the challenge of launching a trust fund. They saw new market opportunities and new products for their clients in this activity. Moreover, Triodos' competitors, especially ASN, had already developed such a trust fund. Three main reasons motivated Triodos' decision: its competitors, its clients demands, and *the "opportunity to change big firms' behaviour*" (Rüter B., Head Triodos Research (HTR), 2001). This last point was decisive. It opened the opportunity for Triodos to reach a new 'target' (the large for-profit companies) in order to spread their message. In this new activity they saw a way to influence for-profit organisations towards sustainable development. "*Of course, we, I mean Triodos, knew that we were not going to change radically the policies of companies. Our investments would be too small for that. But we wanted to influence the companies by opening a dialogue with them. We believed, and we still believe, that by discussing with companies we can change them a little bit. We can make them aware of certain problems*." (Jansen K. (ETB), 2000). Up to that time, the bank had never thought about having any influence on the biggest companies. But the idea seemed consistent with its approach to 'money' and its philosophy: "*It is also in the 'mission' of Triodos to try to promote the sustainable development within the big companies*" (Jansen K. (ETB), 2000)

In 1995 Triodos started some investigations on ethical investment. At that time two ethical funds were already set up in The Netherlands (ASN Aandelen fund, 1993 and ABF Het Andere Beleggings Fund, 1991). According to employees of Triodos Bank (Jansen K. (ETB), 2000; Miedema M. (SA), 2000, 2001 and 2003) Miedema M., Sustainability Analyst (SA), 2000, 2001, and 2003) the existing Dutch ethical funds were not entirely satisfactory: they were not based on sector studies, activities were mixed up, and companies from different sectors were compared. In order to get a better insight and some ideas on how to screen companies, Triodos set up a small team consisting of three employees, among whom Bas Rüter (presently head of Triodos research and deputy managing director of Triodos Bank), to investigate the then current practices – methodologies and criteria. They looked at what was happening abroad, and how screenings were carried out. In particular, they went to England to explore existing funds such as Merlin Research Unit (Merlin Ecology Fund), Commercial Union, Abbey Life Ethical Trust, Scottish Equitable Ethical Unit Trust, Hypobank. They visited some research units as well, such as EIRIS, NPI, and PIRC (Jansen K. (ETB), 2000; Miedema M. (SA), 2000, 2001 and 2003). The outcomes of the investigation were the following:

- It is better to compare companies from the same sector. It seemed more relevant and accurate: "*Comparing companies from different sectors does not make sense*" (Miedema M. (SA), 2000, 2001 and 2003).
- Criteria used at that time by other ethical investment funds were not satisfactory. Triodos wanted strict criteria.
- The quality of the research was of primary importance to reflect as good as possible Triodos Bank's principles. Therefore in-depth research was necessary. "*We had to have good research, something more structured, systematic, and thorough*" (Blom P. (MD), 2001).

As a result, a research department devoted to the screening of corporations was set up. "*Triodos wanted to have the guaranty of the quality of the research and of the respect of its values*" (Rüter B. (HTR), 2001), they wanted the screening done in "very serious manners" (Jansen K. (ETB), 2000). Late 1996 saw the conceptual start of what became later the research department. It developed its own criteria with the collaboration of Tessa Tenant (formerly Henderson Fund Manager (UK) and presently Executive Director of the Association for Sustainable & Responsible Investment in Asia). The fund had some unique criteria such as cars, farming, fur, drugs, tourism, fishing, agriculture, hydroelectric power, endangered species, airlines, hazardous substances, mining, oil and gas that were exclusionary criteria, but it also had the so-called sustainable activities such as health care, public transportation, education. The logic of selecting pioneers in sustainable sectors came from the influence of the loan department where initiatives in sustainable activities were favoured. The rest of the criteria were rather common in the ethical investment field. It also set up its own methodology based on a sector approach, which was rather innovative at that time. The fund had exclusionary criteria that were used a lot in the UK and used what is today called the best in class approach. The best in class approach has been intensively discussed within Triodos. Triodos wanted to have a positive approach. At that time nobody was applying this approach. According to Bas Rüter Triodos was the first to apply such a method of selection*: "We wanted to show to the companies that they could be part of the universe if they are better than the average. It was a way to stimulate companies and to reward the best*." (Rüter B. (HTR), 2001).

Ethical investment lies very close to regular investment. It was quite a risk for the Bank because it was far from its core activity, that focused on small projects and community involvement. The challenge was also to hold on the organisation's values, values for which its clients chose Triodos as their bank. The Bank has a very close relationship with its clients. "*Clients of Triodos have chosen this bank for ideological reasons*" (Miedema M. (SA), 2000, 2001 and 2003). It was therefore very important not to deceive them. Internally the creation of the MeerWaarde Fund met resistance from some employees within the bank (Blom P. (MD), 2001; Miedema M. (SA), 2000, 2001 and 2003). The fund was perceived as not as 'green' as the rest of Triodos bank activities. Therefore it was called 'light green' while the rest of the activities were called 'dark green'. There was no real disagreement but rather questions from the employees. According to the managing director, in 2001 there were still some questions about the MeerWaarde Fund, "*…it is not yet fully accepted*" (Blom P. (MD), 2001).

<u>May 1997:</u> Launch of the fund

In March 1997, Triodos Bank recruited the first full-time employee to work at the newly formed Research Department. Two months later, in May 1997, the MeerWaarde fund was launched. At the beginning there were around 30 to 40 companies, mainly Dutch ones, plus some American ones very well known for their good environmental and social behaviour such as Ben & Jerry or part of a sustainable sector.

For the same reasons as for the insurance policy, that is the non-expertise of Triodos Bank in managing a mutual fund/unit trust, Triodos decided to ask Delta Lloyd to co-operate with them in order to manage an ethical fund. Triodos Bank was responsible for the social and environmental screening while Delta Lloyd was responsible for the financial screening and the buying and selling of shares. The selling of the fund was exclusively carried by Triodos Bank and Delta Lloyd at the beginning, but a few years later agreement was reached with Friesland Bank and Mees Pierson, and lately (in 2002) with ABN AMRO, Kempen Capital management and various otheres for them to sell the fund.

1995	The board of management of Triodos Bank decides to set up a mutual fund including social and environmental criteria.
1997	May: Launch of the MeerWaarde Fund
1998	Internationalisation of the investment portfolio
2000	Creation of three different funds: Triodos MeerWaarde Aandelenfonds (shares); Triodos MeerWaarde Obligatiefonds (bonds); Triodos MeerWaarde Mixfonds (stocks and bonds)

Table 6 – Triodos MeerWaarde Fund, Some key dates

It took Triodos Bank a long time before launching the MeerWaarde Fund (see Table 6 for the key dates). Two reasons amongst others played an important role: firstly the field was very new and therefore very few people had any experience with ethical screening, and secondly Triodos Bank wanted to make sure this new activity could fit in with its principles. Investigation constituted a significant phase in the development of the fund. In 1996-97 Triodos Bank started to design a working methodology in order to screen companies. It was influenced by developments in the UK because there was more experience in that country. The Bank was also confronted with the application/operationalisation of theoretical principles such as sustainable development. Very quickly Triodos Bank came up with the conclusion that a professional body should be in charge of the screening. Therefore the bank set up a department devoted to it. One of the strong motivations for engaging in ethical investment, beside the market opportunity, was the potential impact it could have on stock quoted corporations. It was for a small bank like Triodos Bank the only way to "*open a dialogue with them*" (Blom P. (MD), 2001). This has had a significant influence on the methodology adopted, putting forward contacts with corporations.

2.3.4 Development of the criteria

From the beginning the intention was that the criteria adopted would have to be very strict. It was felt that the fund should have more restrictive rules than those imposed by existing funds in the Netherlands. Triodos Bank had a very strong position on this issue, even though it ruled out investment into a significant amount of listed companies.

The MeerWaarde Polis mainly emphasised avoiding the 'bad' and including the 'good': no armament or alcohol industries for example, while sectors such as healthcare and the environment were highly represented. With the launch of the MeerWaarde fund, Triodos shifted towards a more positive approach. The task of the Triodos research team was to translate the policy of the fund into criteria. It took over two years to develop the first set of criteria. Although they keep on evolving, this first year was important for setting the basis of the criteria. The criteria did not undergo any major changes the following years -- they have been better defined, some have been added and other deleted or rather reorganised-- until 2002 when the sustainable sectors were revised.

In 1997 there were 33 exclusionary criteria in total; 21 of them were related to what was called 'activity to be avoided' (now called 'Serious negative social effects of products and services') – the exclusion is related to the percentage of turnover related to the activity (if more than 5% of the turnover is generated by one of these activities the company is excluded). In 2002 the number was reduced to 17. Five were deleted or, for most of them integrated in other criteria (drugs, excessive non-sustainable forms of tourism, excessive non-sustainable forms of agriculture, excessive non-sustainable forms of fishing activities, large scale hydroelectric power stations, trade in animals or endangered species). One new criterion was integrated in the list in 2002: pornography. Criteria called 'Process-related' (and now called 'Not sustainable management') – this leads to the exclusion of the company without any regard to the percentage of turnover involved – numbered 12 in 1997. In 2002 the criteria were reorganised and grouped together bringing their number to 3. In 2002 the total number of exclusionary criteria was 22.

Comparative criteria have also changed over time. They have been completely reorganised. In 1997 there were seven categories: Strategic objectives, Employees, Place in society regarding social criteria, and Strategic objectives, Impact on the environment and measures, Place in society regarding environmental criteria. In 2002 it was reorganised into three main categories: People, Planet, Transparency and external relations. In general criteria have been redefined and regrouped, which explains the decrease in number. But two aspects have also been added to the comparative screening, namely corporate governance and quality. It was not a decision of Triodos MeerWaarde fund to add those two dimensions but of Triodos Research. Triodos MeerWaarde Fund saw their relevance and accepted them. Criteria are discussed/considered thrice a year by the advisory board. As of 2002, the comparative screening covered 126 criteria.

A recent and significant change has been the review of the 'sustainable sectors' (inclusionary criteria). In 2001 discussions started about the sustainable sectors. Questions concerning the extent to which a sector can be sustainable were raised. The review of sustainable sectors was been discussed with the advisory board of Triodos Research in 2002. Three of the sustainable activities were left out. The list of sustainable sectors was changed, and the definition of the sectors considered sustainable redefined. For example in the description of 'organic farming' in the 2002 version, an eco-label is required, which was not the case in 1997. In the description of 'sustainable energy', the following has been added: 'Companies generating large scale hydroelectric power are excluded'. The activity 'sustainable transport' has been narrowed to bicycles, and 'health care' to homeopathy and medical devices. Environmental technology has also been redefined. Table 7 lists the sustainable activities considered by Triodos in 1997 and 2002.

1997	2002
Organic farming	Organic farming
Renewable energy	Renewable energy
Sustainable transport	Bicycle
Health care	Homeopathic treatment
Financial services fore sustainable activities	Medical devices
Environmental technology and consultancy	Environmental technology
Education	
Telecommunication	

Table 7 - Triodos MeerWaarde Fund Sustainable activities (MWF, 2000; Triodos MWF, 2002b)

It is interesting to note that criteria used by the MeerWaarde Fund are intimately linked to Triodos Research. Therefore when Triodos Research changes the criteria – adding, deleting or redefining – this has implication for the MeerWaarde Fund. Changes are always discussed between Triodos MeerWaarde Fund and Triodos Research.

2.3.5 Actors in the MeerWaarde Fund

The management of the MeerWaarde Fund involves several actors that are more or less active and hold specific roles and responsibilities. Actors are grouped into categories such as advisory board members, investors, screening providers, etc. The following paragraphs present each of the categories, with a special focus on the relationship between them and the MeerWaarde Fund.

2.3.5.1 Supervisory Board

The supervisory board of the MeerWaarde Fund consists of six independent members nominated during the general assembly. It was set up from the beginning of the fund, in 1997. They are responsible for ensuring that investments are made in accordance with fund policy and provide advice to the management of the fund. As of December 2002, the board was composed of six members with diverse backgrounds and involved in various organisations such as environmental groups, consumers' organisations, universities, financial sector, and corporations (Triodos MWF, 2002a).

2.3.5.2 Research

Ethical research is provided by Triodos Research. Triodos MeerWaarde Fund is a client of Triodos Research. The fund buys a service from Triodos Research in order to be able to conduct the management of the fund. There is a relationship of client/supplier.

However for several reasons the relationship between these two organisations goes far beyond the mere ‘client/supplier’ relationship.

Triodos Research was first founded as a department of Triodos Bank in 1997 and became independent in 2000. It then registered under the name of Triodos Research BV, which later on became Triodos Advisory Services BV, a branch of Triodos Holding. Until the separation, Triodos Research was only conducting company screenings for the fund of Triodos Bank, that is the MeerWaarde Fund. Triodos Research was founded within Triodos Bank and for the fund of Triodos Bank. Since its independence, it provides services to many other clients. A description of Triodos Research and its development is provided later on in this chapter (see section 2.4). Many of the values and norms of Triodos Research have been inherited from Triodos bank which, as described earlier, is very strong. Although today Triodos Research is independent, the imprint left by Triodos Bank is still very deep. The MeerWaarde Fund is an important client of Triodos Research independently of the capital it represents. Historical reasons bind the two organisations.

The two organisations are also linked to each other through their structures. The head of Triodos Research, Bas Rüter, is also responsible for the MeerWaarde Fund and is Deputy Managing Director of Triodos Bank. Peter Blom, managing director of Triodos Bank, has responsibilities in both Triodos Research and the MeerWaarde Fund.

Triodos MeerWaarde Fund and Triodos Research have very frequent and close contacts. Besides providing company screening, Triodos Research takes part in discussions related to the criteria and methodology. Meetings are held once a month, gathering sustainability analysts from Triodos Research, and asset managers from the MeerWaarde Fund and Delta Lloyd (responsible for the financial screening). During these meetings they discuss mainly financial issues.

Asset managers of the MeerWaarde Fund regularly make contact with Triodos Research for explanation/discussion concerning a specific issue related to a company, a sector study or criteria. They also contact Triodos Research when they have questions from clients that they cannot directly answer. They forward the question to Triodos Research who is then in charge of the answer. They also forward information provided by clients of Triodos Bank investing in the MeerWaarde Fund. Sometimes clients send articles or website addresses related to the involvement of a company. The information is forwarded to Triodos Research in order to be processed if necessary. This usually happens when Triodos Research has finished a new sector study which entails some changes in the companies selected, or when Triodos Bank publishes an article in its newsletter. It was for example the case after the update of the food industry sector because Unilever was selected. This raised much criticism from the clients (Hansen S. (SA), 2003).

Although Triodos Research has become an independent entity, Triodos MeerWaarde Fund and Triodos Research are still very close. Triodos Research is very influential on the MeerWaarde Fund. Beyond the commercial relation, the MeerWaarde Fund and Triodos Research share a number of values and beliefs due to historical reasons.

2.3.5.3 Fund management

Two different entities manage the MeerWaarde Fund together: Triodos Bank and Delta Lloyd. The two organisations have been working together since 1990 with the MeerWaarde Polis. The management benefits from the expertise of the two organisations, Delta Lloyd in portfolio management and Triodos Bank for social and environmental matters (see Figure 5). Triodos Bank deals with social and environmental screening while Delta Lloyd is in charge of the financial screening. In other words, Triodos Bank defines the investment universe and Delta Lloyd takes investment decisions within the defined universe. At any moment, Triodos Bank can require Delta Lloyd to take companies off the portfolio because of social and/or environmental problems. Upstream the management system, Delta Lloyd may suggest some companies to Triodos Bank for the investment universe, because of financial opportunities. Delta Lloyd's fund managers do not invest in companies without the agreement of Triodos Bank. The two organisations meet every two months and communicate results to each other regularly.

Due to the fund management system, financial and social-environmental matters are processed independently from each other. Social and environmental criteria make it possible to defined the investment universe on which the usual financial criteria are applied, such as earnings per share, operating incomes, growth rate, market position. For Delta Lloyd, the management of the Added Value Investment Fund does not differ from other funds except that the fund universe is smaller and the investment strategy is more oriented towards the long term (Weiss M. (Delta Lloyd), 1998). It is also worth noting that Triodos Bank can ask shares to be sold within three months on ethical reasons, without taking into consideration the financial performance of the shares.

It is interesting to note that the three dimensions, social, environmental and economic, are kept separated. Two different units manage the three dimensions. On one side there is a unit with knowledge on social and environmental matters, and on the other side there is another unit with knowledge on the economic performance of the company. It is important to point out this separation because brochures from ethical investment funds claim that fund management integrates the three dimensions but it suggests that they are juxtaposed rather than integrated.

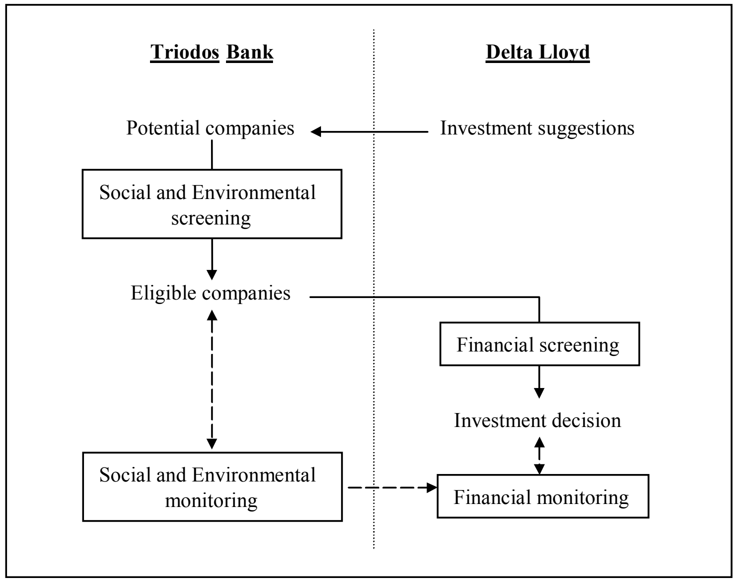


Figure 5 - Fund management system

Concerning the marketing of the MeerWaarde Fund, Triodos Bank is in charge of it. The marketing department publishes a number of documents concerning the Fund: annual and semi-annual reports, a prospectus, a brochure concerning all investment funds proposed by Triodos Bank, among which the MeerWaarde Fund. Triodos Bank also has a website where all the above information can be found. The bank publishes twelve newsletters per year in which articles related to the fund (performance, company screening, specific issues) are sometimes published. These may be written by people from the bank or from Triodos Research.

The management of the MeerWaarde Fund involves several organisations: Delta Lloyd for the financial screening, the selling/buying of shares, and the selling of the fund and Triodos Bank for the marketing and selling of the fund.

2.3.5.4 Investors

Investors are individuals who wish to invest money through the buying of shares. Triodos MeerWaarde Fund is, in this case, the financial intermediary (see Figure 6). The corporation gives a security to the intermediary, Triodos, in return for funds. The intermediary, in turn, acquires funds from the general public, and offers accounts to the general public (Brealey, Myers, & Marcus, 1995).

According to the managing director of Triodos, the MeerWaarde Fund has attracted a new clients although until 2002 the investors were mainly Triodos clients, "*It is mainly a new opportunity for clients of Triodos rather than a way to attract new clients*" (Blom P.

(MD), 2001). Recently the MeerWaarde Fund counts new clients especially clients from other banks such as ABN AMRO who can buy it from their own bank on a share account.

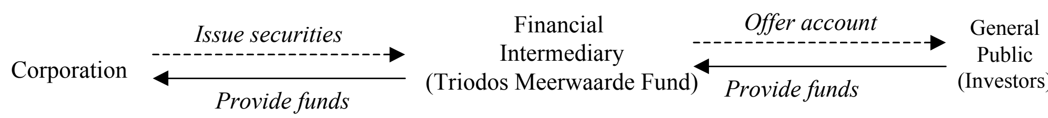


Figure 6 – Triodos MeerWaarde Fund, a financial intermediary

According to a survey carried by Motivaction in 2002 (Triodos, 2002) clients of Triodos Bank are for 60.3% ‘postmaterialists’ that is people that seek solidarity, social harmony and a natural environment (Motivaction, 2002). This category of people is usually highly educated, with various income rates and from various age groups. This group is dominant while in the Netherlands it only represents 9.7% of the population. The two other important groups represented in the fund are the self-actualizers – seeking autonomy, intrinsically motivated and ambitious – and cosmopolitans – people seeking new experiences in order to enrich their self-development.

According to the MeerWaarde management team investors can be divided into two categories, a main one that wants to invest in an ethical fund for the good feeling it provides, and a minor one that wishes, through the fund, to stimulate sustainable development: “*Only a very little percentage are more involved in the choice of companies. ... Let’s say 1% of the clients. These people are aware that the way they invest might influence companies. The rest do not really think about that. Their main concern is ‘feeling good*’” (Triodos MeerWaarde Fund, 21-05-2001). A majority of the investors have chosen an ethical investment fund in order to have a ‘good feeling’. In general clients are concerned with the activities they do not want to be involved in. “*They want to be sure that their money don’t go into nuclear energy, weapons, forced labour*.” (Triodos MeerWaarde Fund, 21-05-2001).

Some of the investors of the MeerWaarde Fund are active investors. They watch carefully the companies that are included in the portfolio. However a majority of them is less involved. A certain number of investors are members of, or working in, organisations related to social, environmental or/and cultural aspects. They are therefore directly concerned by corporations’ social and environmental behaviour and they also have some knowledge on these issues. This makes them more critical than other investors. It frequently happens that investors contact the MeerWaarde Fund to ask questions about companies, about the selection or about criteria: “*…the Aids debate, clients came up with the question about big pharmaceutical companies that have lots of power (concentrate* *power). They have sent articles about that and clearly stipulated that they didn't want to invest in these big companies (such as Glaxo Welcome). They don't like certain companies*." (Triodos MeerWaarde Fund, 21-05-2001) Investors do not hesitate to ask questions when they disagree with the selection of a company (most of the time sending articles or references to websites to back up their concern). According to the MeerWaarde management team this happens two to three times a year. Numerous investors attend the shareholder annual meetings. Their questions concern performance as well as their worries about specific issues related to the social and environmental aspects of the fund.

Investors look at the activity of a company as a whole. They consider companies to be all the same unless they see in the media that a company is doing something special – either good or bad. Then they either want to exclude the bad company, and might ask some complementary information on the rest of the sector, or they might ask to include the company even if it is in an excluded sector such as the car industry (Triodos MeerWaarde Fund, 21-05-2001). Most of the investors base their opinion on media reports. According to the MeerWaarde management team, the media has an important impact on investors, who then come to Triodos Bank with specific requests and questions. It is interesting to note that "*people remember good or/and bad stories. But most of the time people see the bad stories rather than the good ones*." (Triodos MeerWaarde Fund, 21-05-2001). Investors are very explicit about what they do not want but not always about what they do want.

In general the MeerWaarde Fund has a good relationship with its clients, the investors. As the management team said, "*Clients trust Triodos to do the job (the screening) properly*" (Triodos MeerWaarde Fund, 21-05-2001). A majority of the investors are not actively involved in the management of the fund while a minority is. This minority regularly contacts the MeerWaarde Fund to ask questions or send information. This does not happen more than four times a year. Triodos MeerWaarde Fund investors however are more involved than investors in regular funds, because of their special interests and concerns related to social and environmental issues.

2.3.5.5 Others

A number of other actors of different type have played a role in relation to the MeerWaarde Fund: the VBDO, Dutch Analysts Association (VBA), Eurosif, Global Reporting Initiative, and Inaise. They are mainly networks, associations and organisations dealing with ethical investment, in which Triodos is involved. This section also covers some partners of Triodos Bank that are of relevance for the MeerWaarde Fund. Partners or Triodos Bank and have not been considered in the previous section in order to concentrate on partners that are more especially involved in the ethical investment movement – and therefore more relevant to the present research. The MeerWaarde Fund is in contact with diverse organisations that contribute to the process of ethical investment. Triodos is member of all the organisations mentioned in this 'others' category. This means that Triodos financially supports each of these organisations by paying an annual subscription fee. And it also means that Triodos participates to meetings organised by these organisations on a regular basis. The frequency of the meetings differs for each organisation.

- *VBDO (Dutch Association of Investors for Sustainable Development)*

VBDO was officially established in 1996. Its creation was supported by Triodos bank, along with other Dutch banks – ASN Bank, Rabobank, SNS, ABF – and the Dutch Ministry of Spatial Planning, Housing and the Environment (VROM). The aim of VBDO is "*to promote the interests of its members, investors both private and institutional, within the overarching context of sustainable development*"(VBDO, 2001). VBDO's members are essentially financial institutions but also individual investors. As of December 2002, there were 23 member organisations, among which 16 financial institutions, 5 NGOs, 1 rating organisation and 1 consulting organisation. VBDO's main activity is to enter into dialogue with the management of individual companies around questions related to the topic of sustainable development (VBDO, 2001). VBDO represents its members to visit corporations and asks questions on behalf of them as shareholder during the shareholder meetings. The topic is invariably sustainable development. It started first with Shell in 1996. VBDO went to Shell's annual shareholder meeting and raised questions about corporate responsibility on behalf of its members. In the years to follow, the VBDO visited numerous companies. In 2001 VBDO talked to 27 companies individually (VBDO, 2001). Engagement ranges from informal meetings with management to tabling critical resolutions at company general meetings. VBDO is not an activist group but acts within the bounds of what some may call 'shareholder activism' or 'shareholder engagement'. Shareholder engagement is a technique – the use of voting rights attached to ordinary shares to assert and achieve political, financial, or other objectives. It can be used as a tool to influence corporate behaviour on a broad range of issues. This is usually done by using the rights of share ownership to gain entry to a company's annual meeting where critical questions can be asked of senior executives.

VBDO, in collaboration with its members, has also developed several activities or products related to ethical investment such as the standardisation of environmental information for investors, guidelines for Transparency by Sustainable Investment Funds, market development, engagement strategies, and codes of conduct for SRI funds (Eurosif, 2003b). Every year since 1998, VBDO organises a symposium on investment and sustainable development attended by financial institutions, private investors and companies: the National Socially Responsible Investment Forum. VBDO plays an important role in the diffusion of information about ethical investment. It is a central organisation in the Netherlands concerning ethical investment. It participated to the development of the Social and Economic Council on Corporate Social Responsibility Report from the ministry (SER, 2001), they regularly write reports and article, go to conferences, develop research project with universities, and are regularly the object of newspaper or TV reports. They are a member of GRI and were one of the initiators of Eurosif (see presentation of Eurosif in Annex 8).

- *VBA (Vereniging van Beleggingsanalisten)*

VBA is the Dutch Analysts Association. It was founded in 1961 and is part of the EFFAS (European Federation of Financial Analysts Societies). The VBA has approximately 1,200 active members (analysts and fund managers), employed by banks, brokers and institutional investors in the Netherlands and abroad. As a representative of its members the VBA takes part in various financial committees and is in frequent contact with political parties, government bodies and regulatory agencies in the Netherlands. Within the VBA, various committees are actively researching various issues related to the financial sector and in an international context. Recently, in 2002, the association integrated a working group on socially responsible investment. This group works on the connection between sustainability and investment and looks at the various options likely to contribute to, and promote, sustainable development through investment. Members of the group are: Marcel de Berg, (Your Good Choice), Bas Rüter (Triodos Bank), Wouter Peters (PGGM), Age van Heemstra, Peter Pauw (ING Bank),·Pim van Santen (Mn-Services), Wout van Heerdt (Interpolis).

- *Eurosif (European Social Investment Forum)*

Eurosif is the pan-European stakeholder network for promoting and developing sustainable and responsible investment founded in 2001. The Eurosif board is made up of the Five Founding Social Investment Forums among which VBDO. Eurosif aims to provide information and education on sustainable and responsible investment (SRI) at a pan-European level to promote the development and convergence of communication on SRI (Eurosif, 2003a). Triodos Bank is a founding member of Eurosif, along with 15 other members. Members consist of financial institutions (10), rating organisations (4), and NGOs (2).

- *Global Reporting Initiative (GRI)*

"The Global Reporting Initiative is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services." (GRI, 2003) GRI incorporates participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world. The initiative was launched in 1997 by the Coalition for Environmentally Responsible Economies (CERES). It became independent in 2002. GRI is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact. It also has close ties with the following initiatives: AA 1000, ISO 14000, ISO 14063, OECD Guidelines for MNEs, SA8000 and Global Sullivan Principles (GRI, 2003). Triodos Bank supports GRI in two ways. Firstly through VBDO: VBDO is one of the organisational stakeholders of GRI (what GRI defines as a critical element in GRI's governance structure as they elect the Stakeholder Council which, in turn, appoints the GRI Board of Directors); and secondly by following the GRI guidelines for its annual report.

- *Social Venture Network Europe (SNV)*

SNV, a not-for-profit association, is an "international network of socially and environmentally engaged entrepreneurs and business leaders, dedicated to changing the way we and the world do business. Its goal is to integrate the values of a socially and environmentally sustainable society into day-to-day business practices." (SNV, 2003). The network was founded in the US in 1987 and came to Europe in 1993. SNV has also been present in Asia since 1999 and is currently working on establishing a branch in South Africa. Members of the network are business leaders, entrepreneurs and NGOs. Direct offspring organisations are: Business for Social Responsibility (BSR), the Investor's Circle and Students for Responsible Business (SRB).

- *INAISE (the International Association of Investors in the Social Economy)*

Inaise is a global network of socially and environmentally oriented financial institutions. It was created in 1989. Members are from European and non-European countries. INAISE members, through their investment policy, foster and promote the development of organisations and enterprises involved in the environment and sustainable development; the social economy; health-care; social development; education and training; north-South exchange; and arts and culture. INAISE members' approach to investing and depositing is different from that of traditional financial institutions. "As collectors of deposits, they try to be transparent institutions where people can actually see what happens with their money, creating awareness and involvement. As investors, they try to be more than just providers of money" (Inaise, 2003). In the Netherlands Triodos Bank and ASN are members of Inaise. It is worth noting that Frans de Clerck, Director of Triodos Bank Netherlands, has been President of Inaise since May 2002.

With all these partners (VBDO, VBA, Eurosif, GRI, Inaise and SNV) Triodos has close and regular contacts. They essentially exchange information and knowledge. They may also develop some projects together. Other organisations that are not mentioned are the NGOs. Triodos has regular contacts with NGOs in its regular activity. These contacts are not mentioned but they do exist. Triodos Bank has signed the UNEP Financial Institution Initiative Statement on the Environment and Sustainable Development.

2.3.5.6 Relationship between the MeerWaarde Fund and its actors

The MeerWaarde Fund involves several actors drawn from fund managers, advisory committees, research and diverse organisations related to the activity or the movement. The types and frequency of contacts vary for each actor and have evolved over time.

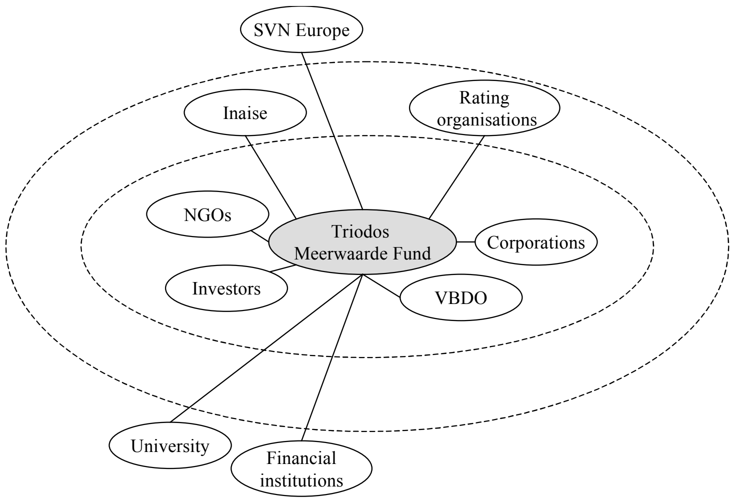
Figure 7 and Figure 8 graphically represent (1) actors involved and (2) the intensity of the contacts. Intensity of contact has been divided into three levels: regular and frequent contacts, regular or frequent contacts, and neither regular nor frequent contacts. Those categories have been chosen because it is not possible to exactly quantify the number of contacts. However it is possible to identify whether the contacts are intense (regular and frequent), semi-intense (regular or frequent), occasional (neither regular nor frequent), or non-existent. For both figures the central actor is MeerWaarde Fund. The internal contacts are not represented (fund management).

Figure 7 represents the actors in the MeerWaarde Fund in 1997, that is at the very beginning of the fund while Figure 8 represents the actors in 2002. In 1997 the total number of groups of actors was 9. In 2002 this number increased by three (12 groups). The circle of occasional contacts has especially increased: 7 in 2002 against 3 in 1997. Groups in the circle of intense contacts have, on the contrary, decreased, from 4 groups in 1997 to 2.5 in 2002 (one being in between the circle of intense and semi-intense contacts). The semi-intense circle contains more or less the same number of groups, 2 in 1997 and 2.5 in 2002. Two main reasons explain those changes. First of all Triodos Research became independent in 2000. This means that in 1997 the MeerWaarde Fund had direct contacts with corporations and NGOs in relation to screenings while in 2002 those contacts were made by Triodos Research under the name of a rating organisation and no longer of a financial institution. Note that the situation partly changed in 2002 when Triodos Research was split up in two organisations, DSR and TAS, because TAS became part of Triodos Bank again. Therefore those two groups of actors have been pushed into the circle of occasional contacts. The same applies to VBDO. Triodos Research is maintaining most of the contacts with VBDO. However the bank itself is still connected to VBDO as a member. Rating organisations have disappeared. The MeerWaarde Fund has contact only with Triodos Research (Triodos Research is maintaining contacts with other rating organisations). Investors have moved from the intense circle half way to the semi-intense. It seems that over time investors are asking fewer questions. This may be due to the fact that since 2002 procedures, criteria and methodologies have been written down and publicly available – therefore answering a certain number of questions from investors. Inaise has moved from semi-intense to intense. This move is mainly due to the direct involvement of the Director of Triodos Netherlands as President of the organisation. Two groups, university and financial institutions, are mainly connected to the MeerWaarde Fund through the advisory board, members of which are part of those groups. The contact intensity has not changed over the last five years. Four groups have been added in 2002: VBA, SVN Europe, Eurosif and GRI. Those are organisations that have developed between 1997 and 2002 due to the growth of the ethical investment movement. Triodos has supported their creation. In a number of cases the relation of Triodos Bank with the organisations is of a membership type.

Triodos MeerWaarde Fund has increased the number of organisations with which it has contacts but the intensity of contacts has decreased. This is mainly due to the independence of Triodos Research, that maintains intense contact with some of the groups while the MeerWaarde Fund leaves the responsibility to Triodos Research. The MeerWaarde Fund has very intense contacts with Triodos Research, which plays a central role in the fund: defining the investment universe and reviewing the criteria and methodology of the selection procedure.

2.3.6 Conclusion

The development of the MeerWaarde Fund has been a long process of trial and error. Triodos had to build up a completely new knowledge base, know how and new contacts indispensable for managing the fund. One of the priorities of the bank was to develop a product that would reflect and respect its values. This entailed a fund with numerous and strict criteria that have not significantly changed over the last 6 years. An important outcome of the development of the MeerWaarde Fund has been the creation of a new department, which then became an independent organisation, entirely devoted to the activity of screening: Triodos Research.



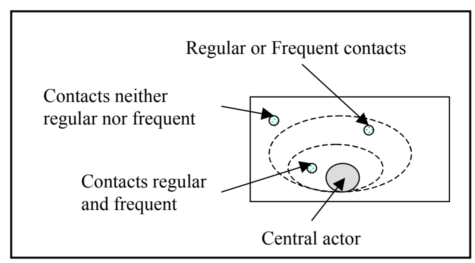


Figure 7 – Actors of the MeerWaarde Fund 1997

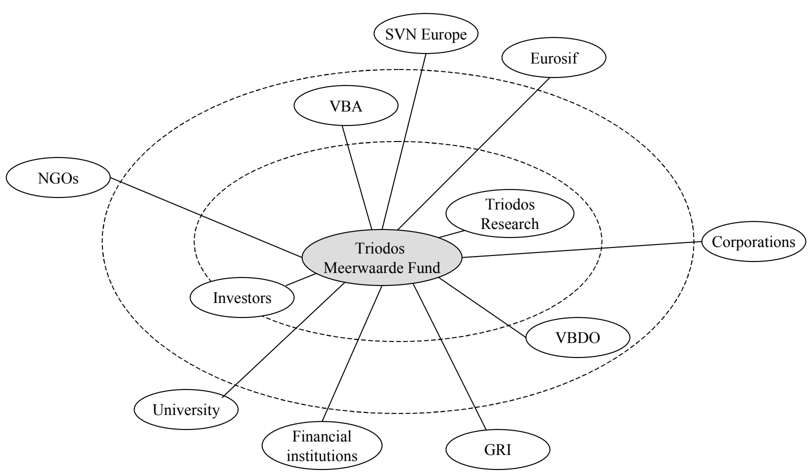


Figure 8 – Actors of the MeerWaarde Fund 2002

2.4 Triodos Research

Triodos Research is a rating organisation. It provides the screening and rating tools necessary in the investment decision process. This section describes how Triodos Research has developed over time (from 1997 till end 2002), and the services and products it offers.

2.4.1 Brief history

Triodos Research started in 1997 as a small department of Triodos Bank. In March 1997 it was composed of three people (representing 1.8 equivalent full time). The department was set up in order to carry out screenings for the new ethical fund of Triodos Bank, the MeerWaarde Fund, launched in May 1997. In 2000 Triodos Research became a branch of Triodos Holding NV, and in January 2002, Triodos Research was split up into two independent organisations: Triodos Advisory Services (TAS), 100% owned by Triodos Holding NV, and Dutch Sustainability Research (DSR), an independent organisation owned by Triodos Bank, Mees Pierson and PGGM. TAS and DSR are two separate organisations with distinctive structures and roles. TAS "supplies investment research and consulting services to pension funds, companies and stakeholder groups who are interested in corporate sustainability and socially responsible investing" (Triodos Research, 2003b) while DSR "provides access to detailed company profiles on major public companies worldwide" (Triodos Research, 2003a). DSR is a fact-finding organisation whereas TAS carries out analysis and consulting activities. As of December 2002, DSR consisted of five employees and TAS of 9. Together they counted eleven full time employees. Although DSR and TAS are two independent and separate entities, in the present thesis they are regrouped in one unit named Triodos Research. The reasons for keeping the old name and structure are twofold. Firstly, the writing of the thesis started when there was only one organisation. The change in name and structure occurred while the thesis was already well advanced. For practical reasons it is easier to keep Triodos Research as unit of analysis. Secondly, the split up has not led to drastic changes in the working procedures. TAS and DSR work together and are based in the same office. Up to 2003 the split was primarily administrative in nature. For these two reasons the thesis does not distinguish between TAS and DSR in the analysis of the data. However because the split is of interest to understand the development of Triodos Research it needed to be mentioned.

2.4.2 Overview of Triodos Research

2.4.2.1 Mission statement

Although Triodos Research has gone through structural and organisational changes, its mission has remained the same. It complies with Triodos Bank's mission but touching a new area, the stock quoted companies. Its purpose is to make stock-quoted corporations aware of their social and environmental responsibilities. Its objective is to influence corporations to move towards sustainability: "*Triodos Research aims to influence companies toward a more sustainable society and to promote corporate accountability and responsibility toward stakeholders*." (Triodos Research, 2000)

The tools Triodos Research possesses to reach its mission are information and engagement with companies. Its objectives are the following (Triodos Research, 2000):

- "*Provide high quality research and services to financial institutions and institutional investors to develop sustainable investment products.*
- *Promote a dialogue with and advise companies on corporate sustainability and accountability.*
- *Advise and support various stakeholders in promoting more sustainable behaviour of companies worldwide*."

2.4.2.2 Strategy and activities

The basic activity of Triodos Research is to "*conduct systematic research into companies listed on the stock exchange on the basis of social and environmental criteria*." (Triodos Research, 1999). However the activities of Triodos Research have developed over time. They first focused on company profiles and sector studies. Then later on other activities were developed due to market demand or partnerships: sustainability scans, advisory services, corporate governance, and issue reports. The activity of information provider has been complemented by the activity of consulting services. Table 8 lists the activities of Triodos Research in 2002.

The two core activities of Triodos Research have evolved over time. They concern the way the activity is carried out, what is looked at, and what is reported and how. The foundation of the SiRi Group in 2000 has led to what has been called a harmonisation process. The first year SiRi's main activity was to find a standardised way of producing company profiles: standard criteria, standard definitions, standard methodology and standard reporting. That has been a very long process which is still going on. The SiRi partners had to face cultural differences, multiple priorities, and various client demands. For Triodos Research the process has entailed some changes. First of all, some criteria have changed. Two groups of comparative criteria have been added: corporate governance and quality. Other comparative criteria have changed such as: the number of women represented on the management board. However those changes are minor. Exclusionary criteria have evolved rather than changed. That is the case for example with 'Environmentally dangerous substances'. Triodos Research used to refer to a Dutch document from the ministry listing dangerous substances. The reference consists now of two international lists, Ospar (Convention for the Protection of the Marine Environment of the North-East Atlantic) and POPs (Persistent Organic Pollutants). Triodos Research has been a dominant partner in the definition of exclusionary criteria because of its stringent requirements. Secondly the process has entailed a complete reorganisation of the profiles. Profiles used to be organised around three main groups of questions: exclusionary screens, and comparative social and environmental screens. With SiRi, they have been reorganised into seven groups of screens organised around stakeholders: community, corporate governance, customers, employees, the environment, human rights and supply chain, and controversial business activities. And thirdly the process has forced Triodos Research to write clear and standard procedures regarding company screenings, contacts with companies and stakeholders, exchange of information, etc. Triodos Research has developed several guidelines related to screening.

The new company profile has led to some changes for sector studies. The most important source of information for conducting a sector study is company profiles. It is on the basis of the profiles that the comparative screening is carried out. The most significant change has been the corporation rating and the organisation of the study. Until 2000, companies from a same sector were given a mark on each aspect – social and environmental. Each aspect had a weight according to the sector characteristics. The two marks were added and companies of the sector were ranked according to their total results. The marking system was not very clear and relied on the analyst's interpretation. This system has completely changed. Sector studies have been reorganised around People, Planet, and Transparency & external relations. Triodos Research has placed an emphasis on the willingness of the company to communicate and on its openness. Therefore the last category has been added. Terms have changed to refer directly to the three Ps concept. For each category, a series of very precise questions is asked to which the analyst may answer only 'Yes' or 'No'. If the answer is yes, the company gets 1 point, if it is no, it gets a zero. The system of rating is more systematic and tries to base the answer on objective facts rather than feelings. There is also a weighting system according to the sector characteristics.

Clients of Triodos Research have also changed over time. At the beginning, Triodos Research had one single client: Triodos MeerWaarde Fund. It was exclusively working for the fund. But little by little the activity grew and Triodos Research started to offer its research and consulting services to other financial institutions such as pension funds and banks. They used the services for managing ethical funds. But another type of client showed interest in some of the services of Triodos Research (especially consulting, sector study and issue reports): companies and stakeholder organisations such as NGOs and trade unions. Up to the end of 2002, those clients have mainly been Dutch organisations.

Company profile	Screening of companies on detailed information covering a breadth of social, environmental, and corporate governance issues.
Sector study	In-depth assessment of companies sustainability performance within an industry
Consulting services	Consulting services related to sustainable investing and corporate responsibility. Advice can be provided on developing sustainable investment strategies taking into account a wide range of social, environmental, and corporate governance criteria.
Sustainability Scans	Sustainability Scans, providing a “snap shot” of a client’s portfolio relative to mainstream investment benchmarks
Corporate governance services	Corporate governance services through which detailed corporate governance information can be obtained from European companies, including voting advice
Issue report	In-depth report on specific issues reflecting the state of the art, future developments, and a position statement on what can be expected from companies.

Table 8 – Activities of Triodos Research in 2002

2.4.2.3 Criteria management

Criteria used by Triodos Research are regularly discussed and definitions constantly refined or updated according to new developments in society. Analyst of Triodos Research meet every two weeks to discuss issues related to criteria and/or methodology. Table 9 is an inventory of all issues discussed within Triodos Research from 1999 to 2002. It only includes issues for which a memorandum has been written. Discussions on issues do not always result in memoranda, either because an issue may require several discussions but only an end-memorandum is written with the final decision, or because it was a minor discussion that did not entail any changes in the issue. During the four years, 53 memos resulted from discussions on various issues. Most of the discussions were about updating or refining the criteria. Few of the discussions were about adding or withdrawing criteria. ‘Refining’ means considering new developments regarding the specific issue, the practice of the criteria, and changes in society. For example the criteria related to hazardous substances has been updated, meaning that the list of hazardous products has changed. It used to be the list from the Dutch ministry, it is now the POPs list (internationally recognised) and the OSPAR list. Dictatorial regimes and Human rights are the most discussed issues. Discussions were often about the application of the criteria and updates of the information.

Type of Discussion	**Issues discussed resulting in a memorandum**	**Number of times**
Refining criteria	Dictatorial regimes & Human rights	10
	Hazardous substances	5
	Working conditions & labour rights	3
	Unsustainable mining	2
	Nuclear weapons	1
	Factory farming	1
	Environmental legislation & serious environment damages	2
	Forestry	2
	Fishing	4
	Animal testing	2
	GMO & genetic engineering	2
	Violation of legislation	1
New criteria	Pornography	1
	Corporate governance	3
	Quality	1
Sectors	Financial sector	1
	Airlines	2
	Pharmaceutical industry	3
	Sustainable sectors	3
Other	General revision of exclusionary criteria (alignment with SiRi	1
	standards)	1
	Companies using non sustainable wood	1
	Alliances	1
	Protected areas	

Table 9 – Triodos Research: discussion on issues (1999-2002) [source Memo Triodos Research]

It is interesting to note that increasingly Triodos Research is adopting international conventions, guidelines or agreements as reference for defining the criteria, such as the World Wild Fund list of 2000 on protected areas, OSPAR and POPs lists. At the beginning (1998/1999) Triodos Research tried to rework those conventions, or adapt them to its specific needs.

Three new criteria have been added to the list of issues covered by Triodos Research namely pornography, corporate governance, and quality. These additions were mainly due to two reasons: demands from new clients (concerning pornography), and alignment with the SiRi partners (harmonisation of the company profiles).

Sustainable sectors have encountered major changes in 2001/2002. Numerous questions were raised from sustainability analysts and investors (from the MeerWaarde Fund) about the so-called sustainable sectors: can those sectors really be considered sustainable? This was discussed several times with the stakeholder panel of Triodos Research in 2002. The list of sustainable sectors has changed, and the definition of the sector considered sustainable has been redefined (see section 2.3.4).

2.4.3 Development of Triodos Research

Triodos Research encountered some significant changes between 1997 and 2002. This section presents some key moments that have been important in the development of the organisation. Figure 9 gives an overview of the key dates.

1996-1997: Search for criteria and a methodology

From 1996 to the launch of the fund Triodos Bank worked on developing a methodology and criteria for the MeerWaarde Fund. They first conducted a kind of state of the art review. Because in the Netherlands very little was in place, they looked abroad especially at the UK. They contacted EIRIS, Merlin Research Unit, PIRC, Ethical Services Ltd and Commercial Union. They had special contact with Tessa Tenant, at that time working at National Provident Institution (NPI) in the UK. They did a comparative study including funds from the UK, US, Australia, Germany, and Scotland.

In 1997 the list of criteria was composed of 12 ‘negative’ and 26 ‘positive’ criteria and indicators. The negative criteria were exclusionary ones. The definitions were very vague. For example, there was a category called ‘Society’ in which one of the criteria was: “ No serious damages affecting the welfare and the health of the local community where the company is operating”. In the category ‘working conditions’, one of the criteria was: “No strikes or other serious conflicts in the last three years”. The positive criteria were also very vague. One of them was “Good relations between the board of directors and the trade unions”.

1996 and 1997 were years of exploration. Triodos Research needed to build a methodology and to acquire some experience. The bank had a general idea of what they wanted but the operationalisation was still at an experimental stage.

1997, March: First employee

Triodos Research officially started. The first employee was hired to conduct the screening of corporations. She had a background in environmental science. Two other employees of Triodos Bank were also recruited to the research department but both were working part time. One of them was, and still is, the head of the department, and the other was specialised in all issues related to human rights (ILO conventions, dictatorial regimes). The second employee was hired in September 1998. His background was related to social issues, more especially with reference to employees, such as working conditions, trade unions and social policy. The third employee started in November 1998. She is the researcher conducting the present study. Each of the employees focused on a specific domain: environment, social, or human rights. They were responsible for keeping the department updated concerning their domain and also to check the company screening on these issues.

The department met every week to discuss company screenings, issue development and working organisation. Each company screened was presented to the department and results were discussed with the whole group.

1997-1998: First screenings

The focus was on Dutch companies, and this for several reasons. First the bank wanted to launch the fund with a number of Dutch companies because the fund was Dutch and targeting Dutch citizens, and secondly they were easier to screen (information more easily available and companies were better known).

Analysts disposed of a list of exclusionary criteria (negative criteria) and a list of comparative criteria (positive criteria). However neither were workable criteria. Analysts had to develop them while doing the screening. Therefore each company assessment led to numerous discussions about the company itself but also the criteria. The first three Dutch sectors were screened between 1997 and 1998: Construction, Food, IT. For each sector study a 'background document' was produced. In a background document, information about specificities and characteristics of the sector are gathered and analysed. The writing of a background document takes between one and two weeks. It consists of several steps:

- Identification of the problems occurring in the sector. Once identified, these are discussed with experts (professionals from the sector, NGOs, and other relevant actors).
- Literature review
- Interviews with stakeholders related to the sector (trade unions, associations, NGOs). External specialists provide the necessary and basic knowledge to be able to make a sector analysis. To each of the stakeholders identified, the analyst sends a questionnaire in which he/she asks what the relevant issues for this sector are. They are also asked to weigh each issue (criteria). The analyst collects all the responses and works out an average of the answers received. This analysis is used as the basis for the screening of the companies in the sector.
- After having gathered the opinions of several stakeholders, the whole department meet and discuss the weights. The analyst pursues the sector study only if the group reaches agreement.

- After approval of the department, the analyst starts screening companies of the sector.

The second stage is carrying out the company screening. It starts with the gathering of information about each company, followed by analysis. After a first draft, two or three persons (often one analyst together with the head of the department) go and visit the company. Each company screened is presented and discussed with the whole department. The screening of one company takes 35 hours on average. Time allocated for screening companies from the sustainable sector is 13.35 hours.

July 1998: First official document on the methodology and criteria

The first official document related to the methodology and criteria of the MeerWaarde Fund was published in July 1998. A distinction was made between two categories of criteria: 'Activities to be avoided: Significant negative social impacts of products and services (21 criteria) and Significant process-related negative social effects (8 criteria)'; 'Aspects of the relative criteria' (9 aspects related to the environment and 18 aspects related to social issues). At the end of the list of criteria it was stipulated that "In addition to these aspects, other complementary aspects may be investigated and evaluated per sector". The list of criteria had expanded a lot since 1997. Exclusionary criteria had increased from 12 to 29, and the comparative ones from 26 to 27.

October 1998: First 'quick' sector study

Because sector studies took too much time it was decided to develop a working method to speed up studies: the 'quick sector study'. The first sector screened with the 'quick sector study' method was the Employment Placement Agencies. It was decided to reduce the time spent per company from 35 to 23 hours. Quick sector studies mean: fewer indicators, telephone interviews instead of a visit, limited consultations with experts (within the sector or related to a specific environmental problem), less group discussion within the department; and the sector weights do not have to be approved by experts. One important change compared to the 'normal' sector study methodology is the time spent on pre-sector analysis. The background document is reduced to a minimum. Criteria used for screening are very carefully chosen, therefore the number is reduced according to the sector relevance. The time spent for screening is distributed as follows (average per company):

a) Gathering of information from companies, internet, and third parties➔8 hours
b) Contact company: telephone interview ➔ 2.5 hours
c) Assessment of company ➔ 7.5 hours
d) Second contact with company➔4 hours
e) Write advice to company ➔ 1 hour

1999: Research of partners abroad

1999 was the year of international strategy development. Triodos Research already had some contacts abroad, among which EIRIS (UK), PIRC (UK), KLD (US), Centre Info (Switzerland) Caring Company (Scandinavia) and Arese (France), but no concrete partnership yet. Triodos saw internationalisation as necessary for two main reasons: the MeerWaarde Fund needed to be more diversified and include companies from several countries (it was too much focused on Dutch companies), and the screening of international groups like Shell or Unilever requires an international perspective. The policy of Triodos Research has always been to be as close as possible to companies, i.e. to have contacts and stakeholders related to the company. Therefore the screening of foreign companies needs to be carried out as much as possible by organisations that have knowledge about the context and culture in which the company operates.

In January 1999 KLD (US), Arese (France), Imug (Germany), Centre Info (Switzerland) and Triodos Research started the process of setting an international cooperation. In April 1999 the Belgian rating organisation expressed an interest in joining the partnership project. In April 1999, Arese and Centre Info agreed to cooperate with Triodos Research. Contacts with other interested parties went on during the whole year: MJRA in Canada (August) and Avanzi in Italy (November). The idea of an international rating group started to flourish (what would later become the SiRi Group). All the rating organisations were confronted to a similar problem: the need to have international companies in their portfolios and the difficulty of screening companies from other countries.

June 1999: First Triodos Research brochure

For the first time Triodos published a brochure devoted to Triodos Research called: ‘Triodos Research, A choice for sustainable investment’. It presented the approach of Triodos Research as well as the services it offers: sustainable capital management, investment advice, and research services. It is interesting to note that during the first half of 1999, Triodos Research was contacted by other banks that were interested in developing an ethical investment fund.

2000: Independence

In 2000, Triodos Research became a branch of Triodos Holding (100% owned by Triodos Holding).

January 2000: First contract with external client

Triodos Research had its first external client in January 2000. The first contact between Triodos Research and the client, another financial institution, had been made in September 1998. In March 1999, the financial institution began to develop jointly with

Triodos its ethical investment fund project. It took almost one year to develop the fund. The bank had much trouble in defining the fund's policy and criteria. Contacts with Triodos were rather intensive. Triodos Research gave advice concerning both criteria and methodology.

<u>June 2000</u>: Launch of SiRi Group

SiRi Group (Sustainable Investment Research International) was officially launched in February 2000. Triodos Research, KLD (US), Arese (France), Caring Company (Scandinavian countries) and Centre info (Switzerland) initiated SiRi. Very soon it was joined by other rating organisations. In February 2000 it counted nine members (those already mentioned, plus Michael Jantzi Research Associates (Canada), Avanzi (Italy), Fundación Ecología y Desarrollo (Spain), Pensions & Investment Research Consultants (UK and Ireland)). In May 2003 it counted 11 members. Scoris (Germany), Stock at Stake (Belgium), and the Sustainable Investment Research Institute SIRIS (Australia) had joined, whilst Arese left in 2002.

SiRi describes itself as "an unrivalled resource of knowledge and expertise on corporations, local markets and SRI investment strategies" (SIRI Group, 2003). Its mission is to provide and promote high quality social investment research products and services throughout the world. The SiRi Group's goals include global coverage of all major financial markets, publication of harmonised profiles in comparable formats of the largest publicly traded companies throughout the world, publication of social profiles of companies making up the major stock indices throughout the world, promotion and the development of socially screened national and transnational financial indices, and maintenance of the highest possible standards for social investment research and products (SIRI Group, 2003).

SiRi Group has put much effort and energy into developing what is called 'harmonised profiles' that is reports of company screening using consistent criteria and in a standardised format. It has been a very long process requiring the agreement of all members regarding the issues that are of importance for assessing corporation sustainability. In mid-2000 SiRi Group managed to establish its first draft harmonised profile. The draft was joined with a handbook called "Data Entry Guide" that explains how to fill in the profile (explanation of the issues covered, the conditions companies should fulfil in order to get a 'yes', etc). Of course the harmonised profile is an evolving document. Each Profile contains over 350 data points and associated analysis. All major stakeholder issues are covered including community involvement, environmental impact, employment relations, customer policies, human rights issues and corporate governance. For each issue, SiRi describes and analyses the company's policies, management systems, reporting standards and impacts together with particular strengths and weaknesses. In addition, SiRi Global Profiles contain information on controversial business practices such as armaments, tobacco, animal testing or GMOs. There are regular updates and changes. The SiRi Group publishes harmonised profiles of the leading international corporations (by end 2002 it had covered the 1,000 largest international companies).

At the beginning of 2002, SiRi developed a Quality Management System which all members are required to follow. This system covers data gathering, knowledge management, contacts with stakeholders, relationships with corporations and incorporation of feedback. For the harmonised profiles, the SiRi Group applies quality standards to ensure a consistent approach to information gathering and analysis. The SiRi Group applies proprietary criteria, definitions and explanations relating to all issues covered in Profiles. All companies analysed are contacted at an early stage for their input and all see a draft copy of their profile for comment and feedback. Company visits are undertaken in many cases. Stakeholder groups are contacted for their views. Each profile is reviewed by a separate SiRi Group member, after internal checking, and each group member organisation is subject to an audit of their research processes. These quality standards ensure that each Profile contains comparable data and analysis.

Besides the harmonised profiles, SiRi offers the following services: local profiles, exclusionary screens, SRI Ratings, SRI indices, SRI fund analysis, strategic SRI advice, shareholder engagement, and sector profiles (SIRI Group, 2003). Since October 2002, SiRi issues a newsletter, The Global SRI Reporter. It is published 9 times a year..

2000: Expansion and new directions for Triodos Research

2000 marked an important turn in the history of Triodos Research. The department took some new strategic directions. The main two developments were: internationalisation and development of a service organisation. The priority shifted from Dutch companies to foreign companies. That means that international contacts needed to be developed, organised and defined. At the same time Triodos Research started offering services to external clients and strove to be "the reference for the Dutch market". However clients may have different requirements from Triodos Bank and therefore Triodos Research must adapt its services in order to satisfy its clients. But Triodos Research also needs to know about the needs and expectations of potential clients. These two strategic changes have been crucial in the development of Triodos Research. They have led to numerous structural and organisational changes:

- Increase of the number of analysts: from 5 to 10 (full time equivalent).
- Strategic meeting of Triodos Research held twice a year with the whole department in order to discuss past and future development (first meeting in May 2000)
- Time efficiency to become the highest priority
- Working procedures to be written down and planning sheets established

- Need to know who the potential clients are, as well as their needs and expectations
- New tasks within the department allocated to an Account manager: he or she is responsible for relations with clients.
- Specialisation per issue: each analyst is responsible for one or more issues (mining, forestry). She/he must keep informed of new developments and write update documents when necessary.
- Company responsibility: each analyst is responsible for a certain number of companies (he/she must keep informed of any changes or developments concerning the companies he/she is responsible for).

The new strategic directions brought numerous methodological questions related to different requirements of clients, meeting deadline for clients, documents to be communicated to clients and documents that cannot be communicated, consistency problems between the different rating organisations, cultural differences, explanation of criteria, etc. These led also led to some changes related to methods and criteria:

- New criteria, among which pornography, monopolistic behaviour, corporate governance and quality
- Revision of the criteria: redefinition and better operationalisation in order to avoid differences of interpretation as much as possible.
- New activity: writing issue reports (first one in November 2000 about mining activity)
- Only one co-reader instead of two for checking the screening results of companies
- Group approval for company screening is not required any more. Only the co-reader has to give his/her agreement.
- Screening of all companies even if they are excluded from MeerWaarde Fund because clients have different requirements.
- Reliance on other rating organisations for the screening of foreign companies.
- Time spent on company screening: more efficient.
- Development of standard form for sector studies and company profiles.

The expansion of Triodos Research brought numerous questions related to the quality of the screening. Within the department there was a fear of gaining quantity at the expense of quality. It was often referred to as the ‘quick and dirty’ screening. Numerous meetings took place in order to discuss the changes and slowly reach agreement. This caused some tension within Triodos Research. For the first time, analysts were confronted with time pressures. The efficiency issue was dominant in the meetings: ‘How can we speed up company screenings?’, ‘Where can we gain some hours?’. Triodos Research had to cope with strict deadlines.

The strategic meetings are also a sign of the new dimension of the department. Triodos Research is starting to develop a strategic position. During the first strategic meeting

(July 2000), a SWOT analysis was carried out in order to find out where Triodos Research stands, where it is going, who its competitors and potential clients are, what clients want, and what the market opportunities are. This shows a clear change: Triodos Research is adopting a strategic approach of its activity.

January 2001: First pension funds

At the beginning of 2001, for the first time, Triodos Research started to work with a pension fund that was interested in integrating sustainability aspects in its investment policy. The pension fund's objective is to have the highest possible returns. Managers of the pension fund believe that sustainable investment leads to higher returns in the long run, therefore they developed this new policy on sustainable investment in 2001. The implementation of the policy took quite a long time. In the fall 2001 a one-year pilot project was launched in order to test the impact on the investment return.

February 2001: Rating tool

In 2001 a new client came with a new request. He did not want profiles or sector studies, but needed a specific product consisting only of company ratings. Triodos Research was already carrying some kind of ratings within the framework of sector studies. But the criteria were not identical for each sector study and there was some room for interpretation. The client wanted something standardised, quantitative, and with as little room as possible for interpretation. Triodos Research developed a new product called 'rating tool'. It was one of the major projects of the year 2001 and required intensive work.

The rating tool is a methodology in which 235 multiple-choice questions are answered for every company covered. For each answer a figure is attributed. If the question is 'Does the company monitor its environmental impacts?': 'Yes'=1 , 'No or no information'=0, 'Not investigated'=0.5 or 'Not disclosed'=0. As input for these questions, the SiRi company profiles are used. The questions are grouped into chapters that are issues or concerns such as Tobacco, Animal testing, General environmental principles & policies. In total there are 50 chapters. Each chapter has a weight, with all chapters adding up to 100%. A sector and/or country risk classification may be applied to each chapter (e.g. for the chemicals sector, most environmental chapters are given a high risk classification).

The strength of the methodology is that all companies, irrespective of the countries or the sector in which they operate, can be compared to each other. The overall score provides an indication of how sustainable the company is. The rating tool is a new methodology focusing on quantitative results.

August 2001: Stakeholder panel

The stakeholder panel consists of 10 experts from trade unions, employers' organisations, environmental pressure groups, human rights organisations, development organisations, consumer organisations and academia. All members act in their personal capacity and do not represent their own organisations. They meet 3 to 4 times a year. The stakeholder panel has no decision-making power. Its purpose is to provide feedback and advice on the following issues:

- Criteria to be used to assess a company's sustainability.
- Relative weights to be assigned to criteria depending upon the industry under review.
- General methodology for conducting sustainability ratings of companies.
- Other issues that contribute to ensuring high quality, reliable research.

The stakeholder panel is a way to officialise the involvement of independent experts. Triodos Research has always contacted stakeholders for advice. At the very beginning, stakeholders were consulted whilst writing the 'background' document concerning the sector, and later on whilst carrying the company screening. Then analysts stopped writing background documents in order to speed up sector studies. Instead the activity of issue management was introduced, for which stakeholders are contacted. The activity has been split off into two activities. However contacts concerning issue management are informal and irregular. Stakeholders are sometimes not directly involved. The panel allows a regular and long term implication of the stakeholders.

The stakeholder panel has been a stimulus to revise some criteria and write down documents on specific issues. One important review concerned the sustainable sectors. The document about these sectors was entirely reviewed, updated and changed. The unsustainable sectors, such as automobile, are now under discussion. Triodos Research has been forced to provide a document stating its position regarding, for example, the Ahold affair in 2003. Documents produced for the stakeholder panel also concern some procedures that needed to be clearly explained to the stakeholder panel for discussion such as the relationship with NGOs and the use of information.

2001-2002: Slow down in the reorganisation

After the turmoil of 2000, Triodos Research seems to be settling down. The number of full time employees has remained more or less unchanged (an average of 10 full time equivalents). However this number hides a rather high employee turnover. Until end 2002 there was an important rate of people leaving. From the 9.5 full time equivalents on 1st January 2001, only 4.1 were still working at Triodos Research in January 2003. Employees of Triodos Research have now an official work title: sustainability analysts.

During the last years Triodos Research has been completely reorganised. In 2001/02 there have been some changes but these are less far-reaching than in 2000:

- Distinction between two types of meetings: *content* meetings, the discussion of criteria or specific forthcoming issues related to sustainability; and *process* meetings, discussion of the day-to-day work (planning, organisation, clients, etc).
- Set up of working group within the department to develop specific projects.
- Development of marketing activity.
- Working procedures are written down: Handbook for screening companies (2002), guidelines for sector studies, list of compulsory sources for screening companies, etc.
- Development of a new research tool: 'wiseguys'. This internet research tool searches information on more than 400 websites selected by Triodos Research. Wiseguys is also used by SiRi partners.
- Official agreement with NGOs: Triodos Research has an official contact person in several NGOs such as trade unions, and environmental and human rights organisations.

2001/2002: New partnerships

In 2001 Triodos Research became a partner in the European Corporate Governance Service (ECGS). ECGS is an alliance of eight independent research organisations, which have come together to provide investing institutions with expert corporate governance assessments of, and informed proxy voting advice about, Europe's largest quoted companies (www.ecgs.org). Through the ECGS network, high–quality, consistent analysis and informed proxy voting advice on corporate governance is provided about companies in the FTSE Eurotop 300 Index as well as leading local indices. Governance assessments are made against local best practice as well as global standards such as the OECD Guidelines of Corporate Governance and the ICGN Principles.

In 2002 a new initiative was initiated by Your Good Choice and Triodos Bank: SODP (Stichting Ondersteuning Duurzaam Pension, Foundation for Supporting Sustainable Pension Funds). This project was developed in collaboration with ABF Capital Management and in close dialogue with Triodos Research and some pension funds. The aim is to help pension funds that want to take a further step in implementing sustainable criteria in the core asset process. SODP wishes to offer alternatives for implementing the desired sustainability profile in the real portfolio through what is called 'controlled sustainability'. This is a quantitative approach for pension funds that optimises the sustainability score of the portfolio within a strict risk return profile compared to a normal index.

The objectives of SODP include: exploring how to implement sustainability within pension schemes, understand sustainability and explore which criteria have to be set and how to implement them in the investment process, provide a network to its members, and promote sustainability (through proxy voting for example). SODP was set up and is controlled by pension funds.

Triodos Research plays an important role in this project. It has participated in its development and is the research partner. It is in charge of providing company screenings and rates the companies according to SODP requirements. Triodos Research also sits on the advisory board of SODP.

<u>January 2002</u>: Launch of DSR and TAS

In January 2002 Triodos Research split up into two organisations: Dutch Sustainability Research (DSR) and Triodos Advisory Services (TAS). The idea of founding an independent company devoted to fact-finding and company profiles had already been suggested in July 2000. Triodos Research and SNS, whose both have a research branch for ethical investment, thought of joining forces and set up an organisation together. For a number of reasons the project never succeeded. However Triodos Research did not give up the idea and looked for other partners.

Two main reasons motivated the split up. First of all, there is a financial aspect. Company screenings are very expensive, especially if one wants to have a diversified portfolio, i.e. a significant number of companies screened internationally, and a performing monitoring system. And secondly there is a strategic aspect. The Bank wanted to detach part of the activity from the name of Triodos, which represents first and foremost a bank, and a bank with strong social, environmental and cultural commitments. The fact-finding activity deviated from Triodos' core business and could, in certain cases, have been a handicap for expanding the activity.

DSR is an independent organisation set up jointly by Triodos Bank, the Dutch pension fund PGGM and Mees Pierson (Fortis Group). It is a member of the SiRi Group. DSR is a fact-finding organisation. It does not promote specific criteria for analysing companies. DSR provides access to the SiRi Global Profiles database. The database consists of detailed and standardised sustainability information of up to 1000 global companies covering environmental, social and corporate governance issues. The company profiles follow the SiRi requirements and standards. They consist of eight distinct chapters including: general corporate information, community, corporate governance, customers, employees, the environment, human rights and contractors, and controversial activities. DSR also offers a standard company ranking based on more than 200 criteria and detailed research reports on specific sustainability themes or sectors.

TAS is the new name of Triodos Research, an independent legal entity owned by Triodos Holding and with a new focus on research and consulting activities. It supplies investment research and consulting services to pension funds, banks, companies and stakeholder groups who are interested in corporate sustainability and socially responsible investing. Research and advisor services are customised to meet clients' specific needs. It provides products such as sector studies, sustainability scans, company information, corporate governance services.

April 2002: Quality Management System

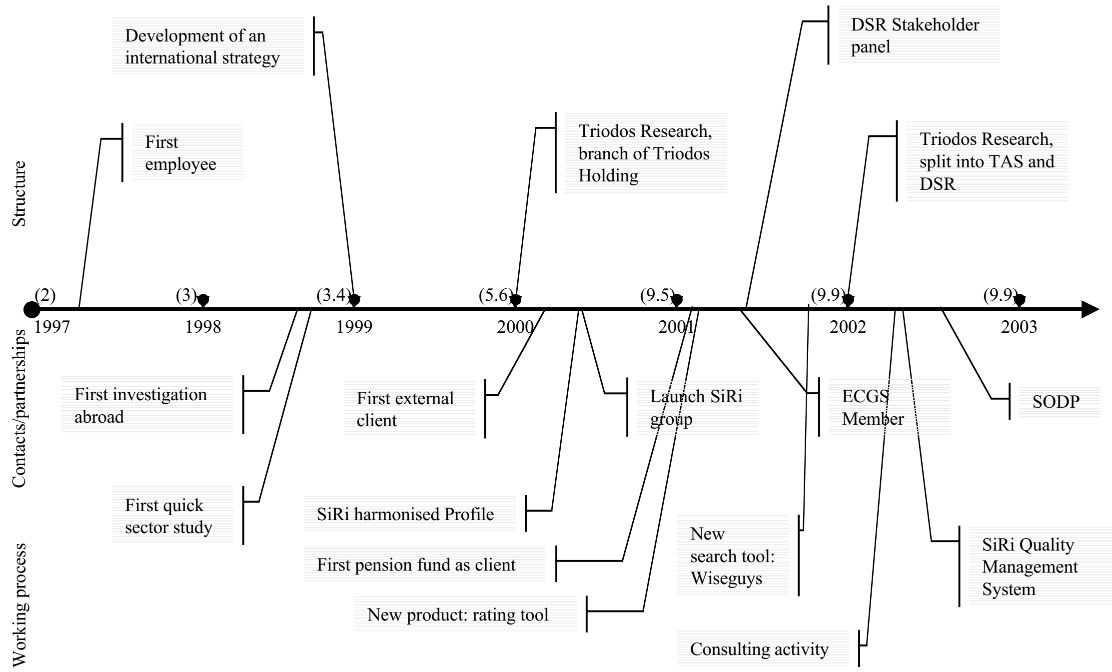
The SiRi Group has developed a Quality Management System which all members are required to follow. This ensures a consistent approach to information gathering and analysis. The system covers data gathering, knowledge management, contacts with stakeholders, relationships with corporations and incorporation of feedback.

A system has been developed to file and archive the collected information as well as to track the screening process. Wide-ranging data and news searches are undertaken. Triodos Research has established a list of data sources that are compulsory to consult when working on a profile, consisting of: newspapers, the wise guys search tool (covering more than 400 websites), plus some additional websites that cannot be integrated in the search tool because a password is needed to access them. This is the case, for example, with ChinaOnline. All companies analysed are contacted at an early stage for their input and all see a draft copy of their profile for comment and feedback. Company visits are undertaken. Stakeholder groups have to be contacted for their views (at least two trade unions and one other NGO). Each profile is reviewed by a separate SiRi Group member. Each SiRi group member organisation is subjected to an audit of their research processes.

Moreover in 2003, Triodos MeerWaardeFund signed the Transparency Guidelines for SRI funds initiated by VBDO in the Netherlands and internationally promoted by Eurosif. The aim is to ensure that retail SRI funds are accountable to all stakeholders, in particular their customers, and to preserve the reputation of the European SRI sector. Signatories make the pledge to be "open and honest and disclose accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the SRI policies and practices relating to the fund" (Eurosif, 2003b).

2002: Consulting work

Since the change in the structure of Triodos Research (the split up into TAS and DSR), a new activity has been growing: consulting. TAS advises institutional investors on possible approaches towards incorporating social, environmental and/or ethical considerations in investment decision making. Based on clients' needs and objectives, TAS assists in defining criteria and developing formal investment strategies. At the same time, TAS collaborates with consultancy organisations such as Good Company and Your Good Choice to give workshops on corporate social responsibility and sustainable development to financial institutions and corporations.



(nb)=represents the number of full time equivalent employees

Figure 9 – Development of Triodos Research between 1997-2002: some key dates

2.4.4 Triodos Research Supply Chain and Network

The screening of companies involved contacts with numerous actors. Annex 2 shows the interactions between three types of actors during the screening of a company 'A': corporation 'A', rating organisation (Triodos Research) and third parties. Third parties consist of all other organisations that might be contacted during the screening process. Most of the time, these are NGOs, Trade Unions, professional organisations, and other experts. The figure on Annex 2 does not take into account possible contacts between third parties and the company. In order to write a company profile, Triodos Research is in constant communication with companies and third parties. They provide Triodos Research with the raw information which is going to be processed and analysed at a later phase.

The Supply Chain

The process of ethical investment can been regarded as continuous flow of money and information (see Figure 10). The focus is on the supply chain of ethical investment.

Five main groups of actors are involved: companies, stakeholders, rating organisations, financial institutions, and investors. Companies have a double role: upstream the supply chain they provide information necessary for the screening, and downs stream they may become investment opportunities. They are thereby taking part in both the information and money flow. Other information providers are the stakeholders. Stakeholder is understood as “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, 1984). It includes non-governmental organisations such as human rights, environmental organisations, trade unions, consumer groups, (inter) governmental organisations, shareholders, professional organisations, the media and others. Companies and stakeholders may be regarded as raw information suppliers. Rating organisations are in charge of collecting the information and process it. The group of rating organisations may be split in two. On one hand there are rating organisations conducting social, environmental and ethical screening such as Triodos Research or KLD, and on the other hand there are rating organisations conducting the financial screening. The first group of rating organisations are sometimes part of the financial institutions or independent. That is the case for example at Triodos. Delta Lloyd conducts the financial screening for Triodos. Ethical rating organisations are most of the time independent organisation, not part of the financial institution. However, it is interesting to note that in a number of cases, such as Triodos Research, the rating organisation has some links with one or more financial institutions (see section 2.4.4). The rating organisations collect information from multiple sources and process it. They write company profiles reporting what is called the ‘raw’ information (that is facts). Based on the profiles, sector studies are carried out in which companies from the same sector are benchmarked and ranked. Company profiles, sector studies and ratings are products that are offered by rating organisations to financial institutions in order to manage their sustainable investment fund. Provided with this information fund managers make investment decision that is buying (selling) corporations’ shares on the stock market.

Figure 11 and Figure 12 represent the network of Triodos Research, in which Triodos Research is the central actor. The two figures represent the network at a different period of time: Figure 11 shows the network as it was in 1997, and Figure 12 as it was at the end of 2002, that is 6 years later. There might be relationships between other actors but these are not represented on the figures. Each of the actors represented has had contact with Triodos Research, however the type, quality and quantity of contacts vary among the actors. In the same way as in figures 6 and 7 (representing the actors of the MeerWaarde Fund), a distinction has been made between three categories according to the intensity of contacts: regular and frequent in the inner circle, regular or frequent in the second circle, and neither regular nor frequent.

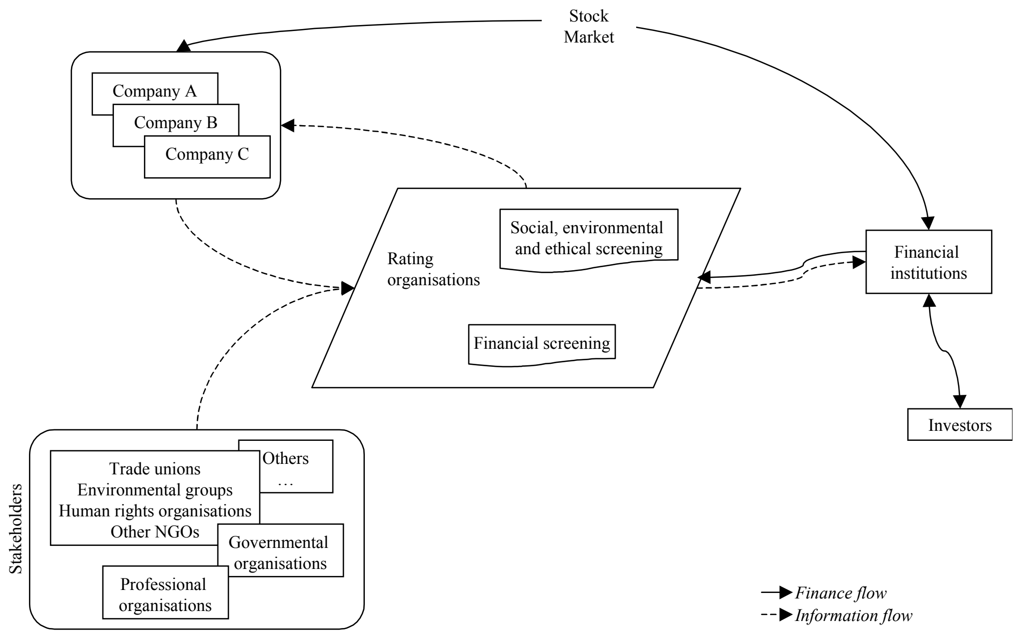


Figure 10 - Flow of money and information within the process of ethical investment

In 1997 Triodos Research had intense contacts mainly with two types of actors: corporations and NGOs. Those two actors were still in the inner circle in 2002. Triodos Research has frequent and regular interaction with companies and NGOs during the screening process. NGOs consist of all the organisations necessary for the screening, that is environmental and social organisations, trade unions, human rights groups, professional experts, consumer organisations, and others according to the sector or the issue at stake. NGOs are also contacted when writing an issue report, and when conducting a sector study (to get insights into the sector characteristics). In 1997 Triodos Research had irregular but rather frequent contact with investors. This was mainly due to the fact that Triodos Research was part of Triodos Bank and therefore was working exclusively for the MeerWaarde Fund. The fund and the research were very close to each other. By 2002, investors had moved to the outside circle. Indeed contacts are becoming rare. Most of the time they are handled by the management team of the MeerWaarde Fund. However, other banks with less experience in ethical investing like to involve Triodos Research when they have difficulties with investors. But Triodos Research does not see it as its role to have direct contact with investors. It is the financial institution’s role to do this.

Triodos Research, as well as Triodos Bank, have regular contact with VBDO. They work or collaborate together on a regular basis. In 1997 Triodos Research had a few contacts with other rating organisations. It was only in 1999 that they had more regular contacts, and in 2000 those contacts were formalised through the creation of the SiRi Group. In 2002 contacts with the SiRi partners were very intense. They are about practical issues but also content issues. Financial institutions other than Triodos Bank were also in the outside circle in 1997. At that time, Triodos Research had only one client: Triodos Bank. In 2000, Triodos Research had its first external clients. Today they are in constant communication with all kinds of financial institutions because they are their clients.

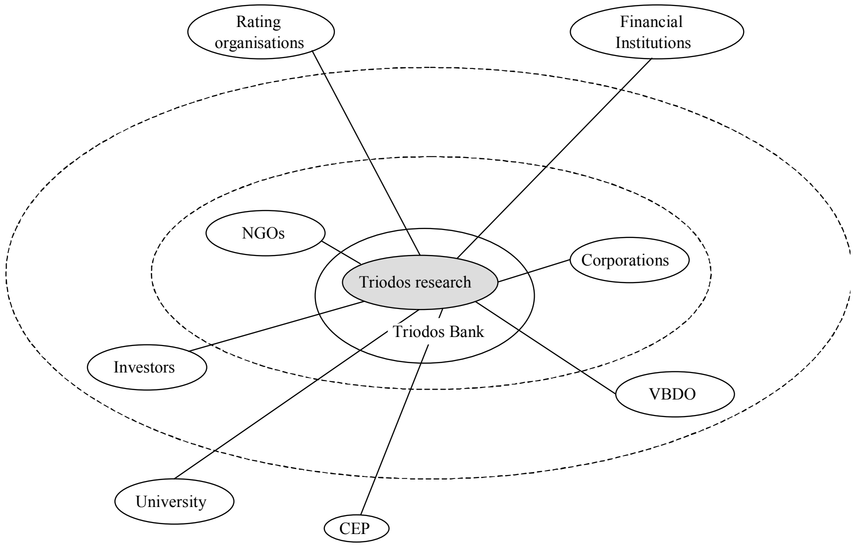
Now and then Triodos Research has contacts with universities. Academic researchers contact them in order to use the database for some studies. But Triodos Research is also asked to give lectures during university courses, usually Master's or MBA. They also have regular traineeships. However this is a loose link.

In 2002 three new important actors came into the network of Triodos Research: ECGS and SODP, with whom they have (or are going to have) numerous contacts, and consulting organisations. The arrival of this last actor is interesting because it opens up a new range of activities for Triodos Research and also a new position on the market.

A certain number of other actors can be grouped together. They are quite different type of actor, in their activity and nature. However the type of contact they have with Triodos Research is similar: it is an information based contact, they principally exchange information linked to ethical investment concerning the activity or issue related. These are: Eurosif, VBA, UKSIF and GRI. UK Social Investment Forum is a network for socially responsible investment. Its primary purpose is to promote and encourage the development and positive impact of Socially Responsible Investment. Its members consist of financial institutions, financial advisers, advisory firms and research providers. The contacts are neither regular nor frequent, however they are strategically important as they provide information on the development of the activity as well as contacts with other actors.

Intergovernmental organisations, governments and the European Union have also come into play. They are showing a growing interest for ethical investment and therefore invite Triodos Research to meetings or projects. The contacts are very irregular and not frequent. For example Triodos Research was invited several times to take part in discussions that led to the European Commission's Green Paper Promoting a European framework for Corporate Social Responsibility in 2001.

The number of actors involved in the network has been multiplied by 1.8 from 1997 to 2002. It consisted of 9 actors in 1997 and 16 in 2002. The number of frequent and regular contacts has increased the most (from 2 to 6). Actors in the not regular and not frequent category have also become more important. Triodos Research has expanded its network, which has also become better organised.



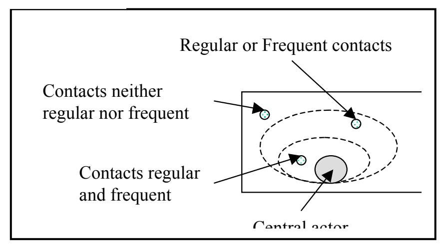


Figure 11 – Triodos Research network: 1997

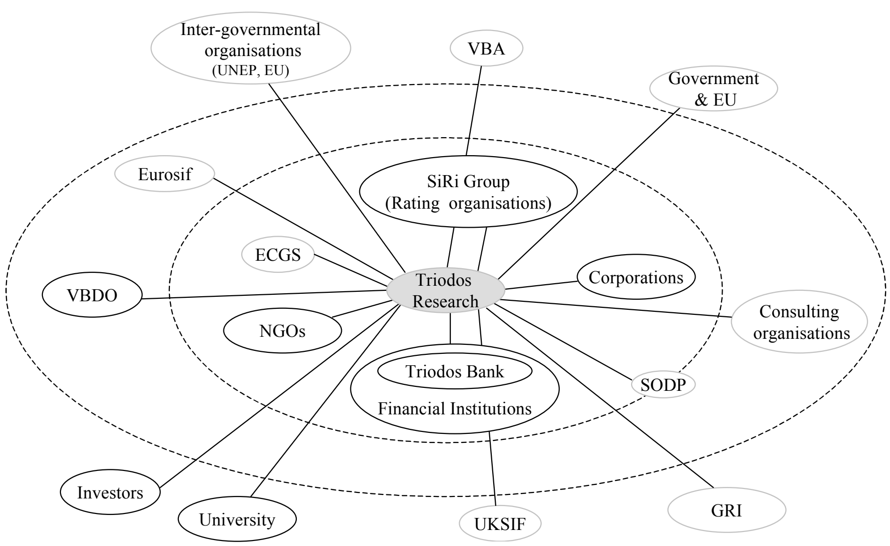


Figure 12 - Triodos Research network: 2002

Figure 13 provides an overview of the types of contact between Triodos Research and the main actors. The contacts have been divided into two categories: ‘money’ and ‘information’. They could have been divided into more categories but this would have made things much too complicated. The ‘money‘ category means that Triodos Research sells its products or services to the actor. The ‘information’ category means that Triodos

Research either exchanges information with the actor (that can be of different types) or develops new products or services.

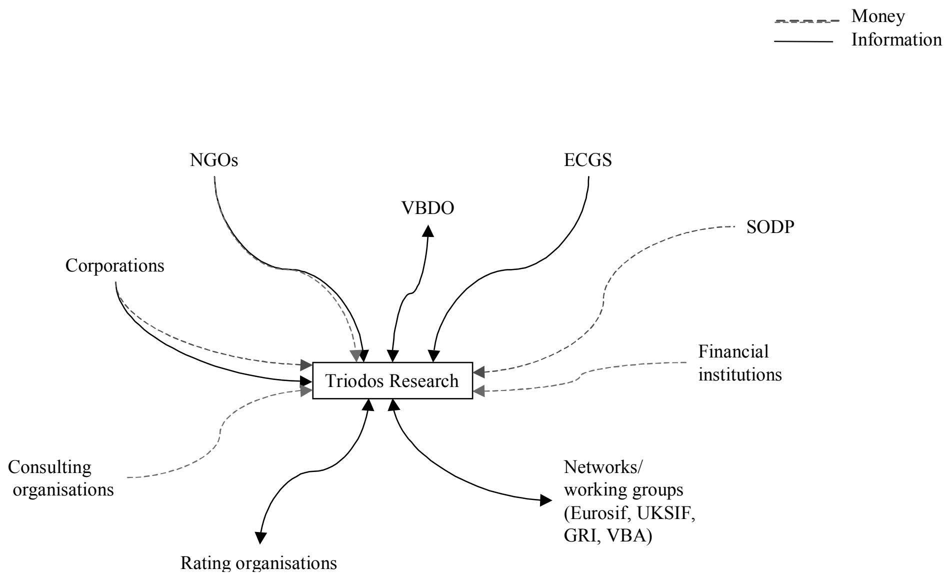


Figure 13 - Information and money flows between Triodos Research and actors in its network

2.4.5 Conclusion

Over the past six years Triodos Research has encountered a number of changes in terms of structure, organisation, standardisation of the criteria and working procedures and development of a certain expertise. At first, it was a department of Triodos Bank, then became independent but 100% owned by Triodos Holding NV, and lately transferred part of its activity to a new organisation jointly founded with other financial organisations. The screening activity has become self-sufficient. Triodos Research has grown significantly: from 2 to 10 full-time equivalent employees, which has entailed a total reorganisation of the work and a better definition of the tasks.

One of the key factors of the transformation process has been the launch of the SiRi Group in 2000. Since then Triodos Research has been through a series of standardisation exercises – concerning criteria, working procedures, and methodologies. Triodos Research has also expanded its network. It has developed numerous contacts with actors involved in ethical investing. An interesting development has been the consulting activity. Triodos Research, a rating organisation, is asked to provide advice to financial institutions setting up an ethical investment fund, but also to companies to explain the screening process.

The screening process has evolved over time. It has become better organised and there are clear rules about how to do it. Guidelines and handbooks have been written for new employees but also to ensure stability in the working procedures. Little by little meetings within Triodos have changed, not in terms of frequency but rather in terms of content. In 1998/99 discussions revolved mainly around company profiles, the ethical justification for companies being included or excluded, and the way criteria were applied. Little by little discussions changed. Today, meetings are organised around two different types of subject: process meetings, that are about practical issues such as planning, clients, contacts; and content meetings, that are about criteria. There is little discussion about whether or not criteria are being followed and about the ethical justification for including a company or not. Responsibility for implementing the criteria is left to each sustainability analyst. Rules have been established about the 'how' to apply criteria leaving no space to the 'why' of the rules. Within Triodos Research there has been much concern about individual judgement. One of the responses has been the development of guidelines, that have made the approach more structured and bureaucratic. Rules are not unimportant, but on their own they do not address the full range of ethical problems likely to be confronted (Nash, 1990). However the established rules do not aim to constrain the analysts but rather to provide a minimum level of consistency. Moreover, in 2001 Triodos Research set up a Stakeholder Panel that provides an enforcement mechanism as it keeps an eye on criteria implementation.

2.5 Signs of change

Following the wishes of their clients Triodos Bank engaged in a new activity: investing. However the bank did not develop a regular fund but an 'ethical' investment fund. The ethical requirements made the activity of investing compatible with the bank's overall mission which is "to contribute to humanly-oriented society—one which respects people, the environment and culture" (Triodos Bank, 2000b). The purpose of the ethical fund is to "encourage companies to behave in a more sustainable way" (Triodos Bank, 2001).

This chapter described the Triodos case. It included three sub-cases: a bank, Triodos Bank, an ethical investment fund, MeerWaarde Fund, and a rating organisation, Triodos Research. It provided insights into and details about (1) the activity of ethical investment and (2) the developments and events from the mid-1990s until 2002 that shaped the activity within Triodos.

Ethical investment involves a series of *actions* such as screening, rating, or ranking, *interactions* with various actors such as corporations, rating organisations, financial institutions, but also NGOs, trade unions, and others, and *decisions* among which selecting or excluding companies.

The development of ethical investment activity has been a long process. It has gone through a number of changes. A significant change is related to structure. From a department within Triodos Bank, in 2002 Triodos Research developed into two organisations: DSR an independent, commercial organisation that is a partner of the SiRi Group and is owned by three financial institutions – Triodos Bank, PPGM and ING Bank, and TAS a branch of Triodos Holding. These structural changes have had an important impact on the networks of both Triodos Bank and Triodos Research. Between 1997 and 2002, the number of close contacts between Triodos Bank and other actors diminished. The only close relationship of Triodos Bank was with the rating organisation. However the number of loose contacts increased, especially with national or international networks related to ethical investment and sustainability reporting. On the contrary Triodos Research increased significantly its close contacts with other actors but lost contact with shareholders. The structural change shows that screening shifted from an internal activity within the bank to a subcontracted service.

Other changes are related to the screening process. The screening of companies went from an *ad hoc* and subjective selection to a standardised and more objective process. Company profiles became standardised. Criteria became better defined, the number of exclusionary criteria decreased and that of comparative criteria increased. Around 2002 comparative criteria were reorganised into People, Planet, Profit categories, referring directly to the 3Ps which is a CSR model. A quality management system was developed in 2002.

The creation of the international SiRi Group in 2000 had an important impact on the activity of Triodos Research. Another factor that influenced Triodos Research's activity was the selling of its services to new clients in 2000. Until the end of 1999 Triodos Research's only client was Triodos Bank. But in 2000, when it became independent, it started to provide its services to external clients. Triodos Research adapted its services to new requirements but also expanded its range of activities, for example to advising services.

Other aspects changed within Triodos Research. For example discussions about criteria were delegated to the members of the stakeholder panel in 2001. But also the wording used within Triodos Research changed; for example the word 'avoidance' became 'serious negative social effects' and 'ethical' was replaced by 'sustainable'.

The signs of change described in this chapter suggest a number of elements:

- An expanding field: over the year Triodos Research has been providing its services to an increasing number of clients. This suggests that there is a growing number of financial institutions that offer ethical investment funds.

- Development of a specific knowledge and know-how related to ethical screening: along with the development of Triodos Research, a new function (sustainability analyst), specific tools and techniques for screening companies (such as the rating tool) and a specialised terminology have been established.
- An increasing formalisation and standardisation regarding working procedures and criteria: working procedures and criteria have been written down; a quality management system has been set up; SiRi partners have developed harmonised company profiles.
- A structural reorganisation: Triodos Research became an independent organisation, separate from Triodos Bank. The social and environmental screening is now carried out externally.
- Expansion of the network: Triodos Research has established a number of new partnerships nationally but also internationally with, for example, the SiRi Group, Eurosif, or ECGS.

The Triodos case describes the field of ethical investment from the inside of one organisation and over a specific period of time. It points at a number of changes but it only provides a limited view on the process of ethical investment and it does not help to understand why and how changes happened. It is therefore necessary to consider the case in a larger historical and institutional context.

Chapters 5, 6 and 7 will investigate the whole field, both in an international and national context. Chapter 7 will particularly focus on one group of actors, the corporations, which are of special interest for addressing the second research question of this dissertation. But first, Chapter 3 will present the theoretical perspective on which the analysis will be built and Chapter 4 will present the methodology and methods used for the research.

Chapter 3 – Institutional theory perspective

3.1 Introduction

Chapter 2 described the activity of ethical investment, from screening to investing. It chronicled the emergence and the development of the MeerWaarde Fund, an ethical fund, and of Triodos Research, a rating organisation – both initiated by Triodos Bank. The development of the activity went through a process which is characterised by a number of specific aspects: complexity and dynamic, formalisation, standardisation, and structuration. There are also some elements that suggest a certain professionalisation, for example the emergence of a new function and the creation of new tools and techniques, as well as the building of an identity through the development of specific vocabulary and a network. These elements are characteristic of institutional fields.

Chapter 2 indirectly also raised the legitimacy issue. The activity, from screening to investing, involves a series of actions, interactions and decisions. Corporations are assessed and benchmarked according to social, environmental and financial criteria. According to their performance and their ranking within the sector, a company may either be included or excluded from a fund. Inclusion depends on two conditions: firstly the corporation must fulfil a certain number of criteria (the absolute criteria), and the corporation must be amongst the top ranking firms of its sector (best in class methodology). If the corporation fails to fulfil either of these conditions, it will be excluded. This type of screening is used by Triodos Bank to define the investment portfolio of the MeerWaarde Fund but also by other organisations that run ethical investment funds. Beyond the activity of investing, the screening of companies according to economic, social and environmental criteria is also a way of assessing the degree of congruence between the company's activities and performance, and ethical investment norms, or in other words legitimacy. This immediately raises the questions: what are those norms, and whose norms are they? To answer these questions it is necessary to broaden our focus, from the *activity* to the *system* of ethical investment, which is a way of including the context in which ethical investment has developed and is taking place.

This chapter proposes a theoretical perspective in order to analyse both the changes that took place within the field of ethical investment and the issue of legitimacy. The first section is devoted to the issue of legitimacy. The second section presents the general theoretical approach. The third section focuses on the theoretical perspective embraced in the research, that is: institutional theory. It is followed by two sections developing specific aspects of institutional theory: institutional mechanisms and organisational responses to institutional pressures. In the concluding section a theoretical framework is proposed, that is based on specific aspects of institutional theory, and will be used throughout the rest of the thesis.

3.2 The legitimacy issue

3.2.1 Organisational legitimation

Legitimation relates to a process through which shared beliefs and values that have been socially constructed through human interaction are reflected. It is a process that confers to an organisation a certain recognition by social actors. Through the legitimation process the social actor accepts or endorses the organisation's means and ends as valid, reasonable, and rational (Baum et al., 1991; Meyer et al., 1983b). Legitimation connects the micro –the organisations – to the macro – the norms – levels of the system. "The concept of legitimacy is important in analysing the relationship between organisations and their environments. Legitimacy provides a linkage between the organisational and societal level of analysis" (Dowling & Pfeffer, 1975) and, at the same time, actions taken by organisations for the purpose of legitimation alter the values and norms (Clark, 1956). Note that two terms are used: 'legitimacy' and 'legitimation'. In this dissertation, the first term mainly refers to the state while the other refers to the process.

Parsons viewed legitimacy as the "appraisal of action in terms of shared or common values in the context of the involvement of the action in the social system[4]". He wrote that "since organisations exist in a superordinate social system and utilise resources which might be otherwise allocated, the utilisation of these resources must be accepted as legitimate by the larger social system" (Parsons, 1960). Thus, according to Parsons organisations are legitimate to the extent that their activities are congruent with the goals of the superordinate system. The functionalist approach of Parsons offers a simplistic view of legitimacy. According to him, particular ways of doing things come about

[4] Parsons (1951) defines a social system as a system of interaction of a plurality of individual actors oriented to a situation and where the system includes a commonly understood system of cultural symbols Parsons, T. 1951. ***Toward a general theory of action***. Cambridge: Harvard University Press..

because they serve the 'wider needs' of society. He clearly distinguishes between individual well-being and "the common good". Legitimacy is merely viewed as an output for subordinates to get resources. The objective is to serve the goal of the superordinate system. Parsons does not consider the social processes by which legitimacy is met and does not consider individual choice.

Dowling (1975) argues that organisations, and companies in particular, seek to establish congruence between the social values attached to their activity with the norms of acceptable behaviour in the larger social system of which they are part (Dowling et al., 1975). If these two systems match, then there is organisational legitimacy, but if they don't, there is a threat to organisational legitimacy. Threats can take the form of economic, legal and other social sanctions. Meyer and Scott also depict legitimacy as stemming from congruence between the organisation and its cultural environment: "Organisational legitimacy refers to … the extent to which the array of established cultural accounts provide explanations for [an organisation's] existence" (Meyer & Scott, 1983a). Maurer (1971) views legitimation as "the process whereby an organisation justifies to a peer or superordinate system its right to exist, that is to continue to import, transform, and export energy, material, or information (Maurer, 1971). And Suchman (1995) gives a definition incorporating the evaluative and cognitive dimensions of the above definitions. "Legitimation is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995). He defines legitimation as a perception or assumption, and justifies it by the fact that it represents a reaction and judgement of observers to the organisation as they see it. Legitimacy is conferred upon or attributed to the organisation by its constituents. He also says that it is a socially constructed system because it reflects congruence between the behaviours of the legitimated entity and the shared (or assumedly shared) beliefs of some social groups.

Institutional theorists argue that conforming to a set of institutionalised beliefs increases legitimacy, resources and survival capabilities (Meyer et al., 1977a). Meyer and Rowan (Meyer et al., 1977a) say that by ensuring legitimacy, organisations demonstrate that they are acting on collectively valued purposes in a proper and adequate manner. It also provides a certain rationalisation and justification of the organisation's behaviour and practices. Thereby legitimation protects the organisation from having its conduct questioned. Legitimation is a way of strengthening its support and securing its survival. Organisations that overlook legitimacy are more vulnerable and may be proclaimed negligent, irrational or unnecessary (Meyer & Rowan). Organisations are sensitive to the cultural environment and therefore look for justifications. Legitimation refers to the desire to improve the appropriateness of actions within an established set of regulations, norms, values, or beliefs (Suchman, 1995). It is worth noting that this 'desire' can be of different kinds. It may be motivated by the necessity to reduce uncertainty or to be part of the general tendency.

One of the outcomes of the legitimation process for organisations is reputation. Although connected, legitimation and reputation are different. Reputation is an intangible resource that contributes to performance differences between organisations. Rao (1994) argues that reputation and legitimation are not competing specifications of organisational identity but are rather complementary aspects of creating an organisational identity. Reputation is based on signals and legitimation flows from symbols. Both of them, signals and symbols are needed to create impressions on audiences. In his study, Rao (1994) shows that like legitimation, reputation influences the survival of organisations. He also shows that rating organisations (financial rating organisations) legitimate organisations. He argues that certification contests organised by independent intermediaries are social tests that invest organisations with credibility. "Victories in certification contests legitimate organisations and validate their reputation because of the taken for granted axiom that winners are 'better' than losers and the belief that contests embody the idea of rational and impartial testing" (Rao, 1994). Do ethical investment and in particular rating organisations contribute to the building of the reputation of organisations? Can we expect that legitimation generates a favourable reputation? There are very few studies on this matter (Aldrich, 1994; Rao, 1994).

Parsons' view of legitimacy does not address the process related to legitimacy but only the output. The research question of the present research is especially concerned with how a an activity, ethical investment, influences corporations that are at the micro level and how in return the micro level forms and shape the values at the macro level. In order to address this issue, legitimation should be viewed as a mechanism that is a social process that provides justification and rationalisation for particular actions. It is a link between the micro level, organisations, and the macro level. The macro level can be of different types, for example the superordinate system of Parsons, or a community, a government, a social movement with different values and its own beliefs' system. This process is a sort of continuous appraisal of the congruence between the behaviour of an entity with the shared beliefs and values of social groups. The motives for seeking legitimacy may be of different nature depending also on the organisation's own goal.

3.2.2 Legitimacy and efficiency

Institutional theorists argue that legitimacy is a necessary variable for an organisation to survive. "Organisations require more than material resources and technical information if they are to survive in their social environments. They also need social acceptability and credibility" (Scott, 2001). However an organisation cannot survive only through legitimacy. It also needs to fulfil efficiency requirements. The previous section discussed the concept of legitimation. Efficiency, just like legitimacy, can be subject to many interpretations. In engineering terms, the concept of efficiency refers to maximising the output while minimising the input, for example the efficiency of an engine can be measured in miles per gallon of gas (Richardson & Joshi, 1997). In economics, the unit used in order to measure inputs and outputs is monetary. Efficiency is usually seen as an optimal use of resources, that is a use of resources which extracts the maximum output from any trade or productive activity (Campbell, 1970).

Legitimacy and efficiency may be seen as two forces that work in opposition or as complementary. While efficiency connotes with the individual search for gain and the desire to dominate, legitimacy connotes with the need for social ties which bind individuals together into organisations, families and states (Richardson et al., 1997). Views on the relationship between legitimacy and efficiency have changed over time. Friedman, by reducing corporations' responsibility to making profit (Friedman, 1970), narrowed corporations' legitimacy to economic performance. In Friedman's view, corporations' legitimacy is entirely dependent on one stakeholder, namely stockholders, meaning that a corporation must be profitable in order to be legitimate. Legitimacy and efficiency work hand in hand. This view has been criticised. Donaldson (Donaldson & Preston, 1995) argues that corporations need to consider the interests of all parties affected by the actions of the business. Companies are not only required to act instrumentally in order to ensure long term shareholder value, but they are dependent on specific external and internal spheres of legitimacy, defining the acceptance and stability of the corporation as a social actor. Corporations are not autonomous entities acting independently but they are embedded in a social context that determines their actions (Crozier & Friedberg, 1977). Legitimacy is then provided by interactions with and among a spectrum of stakeholders, which makes the relationship between efficiency and legitimacy more complex.

Institutional theorists relate legitimacy and efficiency to two different environments, the technical and institutional environments (Meyer et al., 1977a). The two environments impose very different demands on organisations. "A technical environment demands physical output in the form of products, services, and profit, while the institutional environment demands structures, ideologies, and processes in order for the organisation to become legitimate" (Boons & Strannegard, 2000). Organisations need to manage both environments, but the two environments do not necessarily enhance each other. It makes it difficult for companies to deal with the two environments. If micro-economic models emphasise the rational utility maximisation function, institutional studies bring attention to the need to conform to social values, that is seeking legitimacy. According to Meyer and Rowan (1977) organisations solve conflicts between institutional rules and efficiency by 'decoupling' actions towards both environments. Organisations decouple structure from activity and structures from each other. Different structures manage the different types of demands. This avoids conflicts between the two and ensures, through the formal structure, legitimacy. According to Meyer and Rowan, "the more highly institutionalised the environment, the more time and energy organisational elites devote to managing their organisation's public image and status and the less they devote to coordination and to managing particular boundary-spanning relationships". Corporations use decoupling to protect their formal structures from evaluation.

Scott and Meyer (1983) separate the two environments as two dimensions of the organisational environment (Scott & Meyer, 1983). The two dimensions and their combinations depend of the type of sector, that is the degree of institutionalisation, and the level of technical development. Organisations that are in predominantly technical sectors will attempt to control and coordinate their technical activities and protect this technical core from the external environment (Scott et al., 1983). They decouple the technical activities from potential fluctuations in the institutional environment. They closely control the technical activities and strive to achieve maximum efficiency. Organisations operating in predominantly institutional sectors do not try to control or coordinate their technical activities closely. Instead, they attempt to buffer or decouple these activities from the formal organisational structure. They use the formal organisational structure to integrate the specifications established by the larger institutional structures. Administrators in institutionalised organisations buffer their organisations' technical activities from close surveillance and regulations (Scott et al., 1983). When the organisation is in a technical sector, then efficiency will be prioritised and perceived as the sign of success, while in an institutional sector, it will be the opposite: organisations will first try to conform to the institutional pressures. In the case where both environments, institutional and technical, are highly developed, such as in hospitals, organisations face internal conflicts. In the case where neither of the environments is highly developed, organisations have only a limited chance to survive. So from Scott and Meyer's perspective, legitimacy and efficiency are two distinct dimensions whose relationship depends on the type of sector.

Others, like Offe (Offe, 1984) and Joerges and Czarniawska (Joerges & Czarniawska, 1998) see the two environments as intertwined. Miles (1982) supports this view in the analysis of the tobacco industry. He refers to the relationship as one of "mutual interdependence' (Richardson et al., 1997). The tobacco industry is subject to the demands for efficiency from the market but has simultaneously found that its major products were being de-legitimated in western societies. The strategic challenge facing the industry was to re-establish legitimacy while seeking to achieve efficiency. Both were necessary simultaneously, as the organisation's survival could not be ensured simply by establishing its legitimacy, nor could it survive by only continuing to produce cigarettes as efficiently as possible.

Legitimacy and efficiency are often perceived as two conflicting forces because they follow different rationalities as well as provide different rationalities to organisations. The issue of legitimacy versus efficiency has often been discussed (Meyer et al., 1977a; North, 1990; Scott, 1983). It is interesting to note that the concept of sustainable development brings up issues related to legitimacy/efficiency. The concept originates from a resource dependency perspective in which natural resources are scarce and may in the future not be sufficient to fulfil human beings' needs (Meadows, 1972). The discourse related to sustainable development has evolved over time and has entered the sphere of corporate social responsibility. In Western Europe, for instance in the Netherlands, being sustainable is part of the responsibilities of corporations. Three aspects of sustainability are distinguished: economic, environmental and social. Companies are increasingly being judged on criteria related to social and environmental matters. Ethical investment is a good illustration of this phenomenon integrating social and environmental performance in the investment decision process. This development has opened an intense debate on the link and the relationship between social and environmental performance and financial performance: are they positively or negatively correlated. One of the most often used arguments is that a good social and environmental performance benefits financial performance. If social and environmental aspects are considered as part of the legitimacy of the company and the financial one as the efficiency aspect, then the argument says that a company cannot only act according to an efficiency goal because this is linked to legitimacy. If it does this, it might negatively affect its legitimacy, which will have a negative repercussion on its efficiency. It is also true the other way around: a company acting only in relation to its legitimacy will damage its efficiency, which in return will harm its legitimacy. This refers back to Friedman's perspective of profitability as the ultimate responsibility of companies because everything is brought down to the economic performance of the company. It is also interesting to note that environmental/social aspects are managed separately from financial performance. As will be discussed later on, ethical investment clearly distinguishes between the three aspects of sustainability.

Legitimacy and efficiency do not necessarily conflict. Although they may pull the company in two opposite directions, they are both essential for the survival of an organisation. The challenge for companies is to find an acceptable balance between the two of them. The combination between legitimacy and efficiency may differ depending on the sector and its characteristics. This is an important element that will reappear when considering the sample of corporations to be studied for this research. Because technical and institutional environments are different per sector, institutional pressures will be different as well. In an institutional sector, institutional pressures may have a greater effect than in a technical sector. Another important element coming out of the issue of decoupling relates to the research question. If ethical investment by developing standards invites corporations to engage in decoupling, it may affect (negatively) the potentiality of ethical investment to change organisational behaviour. The risk is that corporations will hide behind standards. By conforming to those norms they will avoid inspection, evaluation and control of their activities.

3.2.3 Degrees of legitimacy

Not all organisations seek the same degree of legitimacy. Organisational legitimacy is determined by the method of operation and output as well as by the goals or domain of activity of the organisation (Dowling et al., 1975). Dowling and Pfeffer, defining legitimacy as a constraint, argue that its impact on an organisation depends on (1) how visible the organisation is and (2) the degree of dependence of the organisation on social and political support. They hypothesise (without providing any research evidence), that organisations that are larger and organisations that receive more political and social benefits would tend to engage more heavily in legitimating behaviour. Suchman describes two particular important dimensions in this regard: the distinction between pursuing continuity and pursuing credibility and, the distinction between seeking passive support and seeking active support (Suchman, 1995).

The first aspect depicted by Suchman (1995) deals with both stability and credibility. Stability is improved because people are more likely to supply resources to organisations that appear desirable, proper, or appropriate (Parsons, 1960). And then credibility is enhanced because people perceive legitimated organisations not only as more worthy but also as more meaningful, more predictable, and more trustworthy (Suchman, 1995). Part of the cultural congruence captured by the term legitimacy involves the existence of a credible collective account or rationale explaining what the organisation is doing and why (Jepperson, 1991). Suchman (1995) notes that “actions that enhance persistence are not always identical to those that enhance meaning”; it is therefore important to keep these two dimensions distinct from each other although they are mutually reinforcing.

The second distinction drawn by Suchman (1995) concerns active or passive acquiescence of legitimacy. If an organisation wants to be left alone, its legitimacy level will be low. But if on the contrary it seeks extended audience intervention, then the legitimacy demands may be stringent. Passive support involves legitimacy as cognitive taken for granted, while active support involves legitimacy as evaluative approval: to avoid questioning, an organisation only needs to “make sense”, to mobilise affirmative commitments, it must also “have value” (Suchman, 1995). Here it is interesting to bring in Katz and Kahn’s (1978) levels of legitimacy. They distinguish three levels of legitimacy: (1) the formal law enacted by legislative bodies, (2) legal norms or generalised codes that transcend specific statutes, and (3) societal or moral justification, as embodied in social norms. This threefold basis confers great power to produce compliance (Katz & Kahn, 1978). In order to have active support an organisation must go to the third level of legitimacy (and beyond) while passive support can be achieved at the second level.

Suchman offers a strategic approach to legitimacy, which differs from the deterministic approach of institutional theory. Suchman's dimensions suggest that organisations adopt specific strategies according to their internal objective. This objective, as discussed previously, may be influenced by the organisation's environment (technical or institutional). Suchman follows Pfeffer's proposition that "one of the elements of competition and conflict among social organisations involves the conflict between… systems of belief or points of view" (Pfeffer, 1981, in (Suchman, 1995)). In 1975, Dowling & Pfeffer proposed three types of responses to become legitimate: (1) the organisation adapts its output, goals, and method of operation to conform to prevailing definitions of legitimacy; (2) the organisation attempts to alter the definition of social legitimacy so that it conforms to the organisation's present practices, output, and values; (3) the organisation attempts to become identified with symbols, values, or institutions that have a strong base of social legitimacy. Suchman as well as Ashforth & Gibbs (1990), (Ashforth et al., 1990), "depict legitimacy as an operational resource that organisations extract from their cultural environments and that they employ in pursuit of their goal" (Suchman, 1995). Legitimacy is a process that needs to be kept under managerial control because it is a source of conflict between the corporations' managers and social actors. Oliver (1991) adopts a similar approach in her organisation's response to institutional pressure framework (the framework is introduced later on in section 3.6). According to this view, legitimation is purposive, calculated and frequently oppositional (Suchman, 1995).

This approach contrasts with institutional theorists (DiMaggio, 1991; DiMaggio et al., 1983; Meyer et al., 1977a; Meyer et al., 1983b; Zucker, 1987), whose assumption is that legitimacy is not an operational resource but a set of constitutive beliefs (Suchman, 1995). One of the basic arguments of institutional theory is that legitimacy is a source of formal structures for organisations that constrain organisational behaviour. It is a sustained and driving force among organisational actors. Institutionalists emphasise the collective structuration (DiMaggio et al., 1983).

Both approaches, strategic and institutional, consider that all organisations seek and need a certain degree of legitimacy in order to function. It is considered a card for survival and long-term sustainability, and gives them the necessary license to operate (Bansal & Roth, 2000). It would be interesting to examine this assumption more closely. One may question whether organisations always want legitimacy. In some cases, it may well be possible that an organisation either cannot live up to a certain degree of legitimacy or/and strategically refuses to do so. Moreover the approaches to legitimacy do not consider that an organisation may face several processes of legitimacy with different and conflicting norms and values. This may be due to a multiplicity of social actors. For example consumers and shareholders of a corporation may not follow the same legitimacy processes. In this case the organisation has to choose to which norms it wants to conform and to which it does not want to conform.

It can be expected that corporations will not perceive, and respond to, pressures exerted by ethical investment in the same way. This may vary according to the activity and objective of the company. Therefore companies may adopt different responses to ethical investment entailing a certain degree of resistance and compliance (Oliver, 1991). In the case of ethical investment, size is an issue to be considered because corporations screened for ethical investment only include the largest stock-quoted companies. In order to investigate the research question related to corporations' responses to ethical investment, it is important to consider a strategic approach to legitimacy. The strategic and the institutional approaches are not two completely different approaches, but they do address two different levels of analysis: the strategic approach focuses on the micro level, that is the organisational level, while the institutional approach focuses on the macro level, that is the field level. Elsbach (Elsbach, 1994) argues that the distinction between the two approaches is a matter of perspective, "with strategic theorists adopting the viewpoint of organisational managers looking 'out', whereas institutional theorists adopt the viewpoint of society looking 'in'".

3.2.4 Legitimacy and organisational change

The research questions of the thesis deal with social change. Therefore it is appropriate firstly to ask whether or not legitimacy may stimulate change and secondly to explore ways of approaching the issue of change.

Organisations are sensitive to reputational effects because these affect their efficiency as well as their legitimacy. If ethical investment affects companies' reputation through the rating, it is most likely that they will consider it carefully. Ethical investment may also affect the legitimacy process by changing/creating standards and norms. Legitimacy acts as a constraint on organisational behaviour, but it is a dynamic constraint which changes as organisations adapt, and as the social values which define legitimacy change and are changed (Dowling et al., 1975). Social norms and values are not permanent. Changing social norms and values constitute one motivation for organisational change and one source of pressure for organisational legitimation. If ethical investment changes the norms and values, corporations will have to change if they want to conserve a certain degree of legitimacy. Legitimacy is problematic for organisations, and it is likely that organisations take actions to ensure their continued legitimacy. Dowling & Pfeffer (1975) provide a series of examples in which legitimacy has been a source of change for organisations among which the case of the American Institute for Foreign Study (AIFS). Faced with a problem of legitimacy following criticism of its methods of operations, AIFS engaged in a variety of legitimating behaviours such as co-optation of prominent educational and political leaders, the use of legitimate organisations as sites for its operations, and the identification of its output with other legitimate organisations (Dowling et al., 1975).

In societies where corporations have a significant power, it is important to consider a point that was only alluded earlier: organisations may have a crucial role to play in the definition of the values and norms. Unfortunately, institutional theorists have often omitted this possibility. It was only in 1991 with the article of Oliver that this was fully considered. She argues that organisations adopt different strategies in response to institutional pressures. Strategies range from conformity to manipulation. When conforming, they simply and purely adopt the existing norms and values. When manipulating, they openly disagree with the norms and values and try to change them. Oliver considers organisational strategic choice. It is crucial to envisage alternatives because existing norms and values may not be the best for promoting sustainable development. Following the functionalist view of Parsons (1960) organisations do not have any choice, they are subordinated to the central actor (see section 3.2.1). This view of legitimacy may not stimulate change but rather hinder it. It is therefore important to consider organisational strategic choices where organisations are free to enter into conflict with the system and try to change the social norms.

Another important element to consider is the issue of decoupling (see in section 3.2.2). Meyer and Rowan suggested that to achieve legitimacy within their environment, organisations must construct stories about their actions that correspond to socially agreed rules about what such organisation should do. These stories are not necessarily connected to what the organisation actually does, but rather they are used as ‘forms of symbolic reassurance to mollify potentially influential publics’ (Meyer et al., 1977a). If legitimacy drives corporations to separate their technological and institutional environments this may not stimulate corporations to change, but rather reinforce their current practices.

3.3 Theoretical orientation: Mechanism approach

Although ethical investment is a rather new phenomenon, numerous studies have already been carried out. Most of them focus on clarifying the link between financial and sustainable performances (for a review see (Kurtz, 2000)). They can be criticised for being theoretically poor and provide limited understanding of the phenomenon. They do refer to some theories, mainly related to financial assumptions (especially portfolio theories) and stock prices (for example in (Hickman, Teets, & Kohls, 1999; Meulen et al., 1997; Wall, 1995)). However a large number of the studies on ethical investment are merely performing statistical analysis. They do not develop causal arguments to explain why findings have been observed. They do not refer to a theoretical framework. Statistics provide a tool for estimating mathematical models representing a conception of social processes (Sørensen, 1998). Statistics is often used as an end result, providing the model itself to be estimated. As said Sutton and Staw (1995) "data are not theory…empirical evidence play an important role in confirming, revising, or discrediting existing theory…but [they] rarely constitute causal explanations" (Sutton & Staw, 1995). According to Boudon, "understanding is achieved not by means of descriptive statistical models but through theoretical models that show the abstract logic of the process being analysed" (Boudon, 1976; Hedström et al., 1998). Boudon (1976) argued, "we must go beyond the statistical relationship to explore the generative mechanism responsible for them [the causal relationships]" (in (Hedström et al., 1998)). Studies exploring other dimensions of ethical investment are rare. There are some studies questioning the ethical dimension of ethical investment (Anderson et al., 1996; Irvine, 1987; Mackenzie, 1997). They have based their theoretical perspective on business ethics and philosophy. Severyn Bruyn, whose work relates to social economy and cultural studies, has done some studies on ethical investment based on the social and political economy field. He addresses ethical investment as a political movement (Bruyn, 1987, 1999).

The thesis deals with social change, and more exactly with change within and from an organisational field. 'Change' may be approached from different angles involving different bodies of literature. In order to go further in the development of the research it is important to state clearly in what way 'change' is addressed. Boudon (1986) distinguishes four main types of theories of social change. The first two types are rather linear (Boudon, 1986). The first type of theory points out the existence of more or less general and irreversible trends. This type of theory includes statements affirming the existence of stages destined to appear in a certain order. It is for example the law of the three stages in product development: launch, maturity and decline. Theories of the second type take form of what are generally known as conditional laws, or propositions of the type 'if A, then B' or 'if A, then (usually) B'. It is formulated either in a form of conditional law or a structural law. For the last one the element A describes not one single condition or variable but a system of variables. Type 1 and 2 are not always independent of each other, or more precisely, statements about trends are often based on more or less explicit conditional laws. They are both characterised by conclusions or diagnoses that could be described as empirical in so far as they refer to certain states or stages of society. In contrast type 3 of theory deals with the form of change and not the content of change. It does not tell us what has changed, but how, in what form and in what way the change occurred. For example Crozier puts forwards theories dealing with the form of certain processes. He does not tell us *what* will change (which is what type 1 and 2 would do), but *how*, in what way it will occur. He applies such a theory of change when looking at French cultural habits (Crozier, 1970). The fourth type of theory deals with the causes or factors of change. Because of causal feedback, the notion of cause can be very ambiguous when it is used in the analysis of social change. For example a new policy is in fact the result of a process characterised by a linked series of actions, reactions or retroactions rather than of a cause or even of a group of causes. It is the end point of the whole process, and one cannot impute causality to one or more of the elements of that process.

Boudon's classification is useful to help situate the type of theories necessary for the research. The thesis focuses on the mechanisms that lead or may lead to change, hence not *what* has changed but *how* it changed. It also investigates how the organisation's responses to these changes may, in return, impact the whole field of ethical investment itself; or in other words it considers the feedback loop. In order to carry the research, theories of the types 3 and 4 are necessary. Institutional theory is a theory of these types. It is concerned about "the way in which organisations function and change" (Boons et al., 2000). It does not explain what has changed but how it has changed. It concentrates on processes rather than results. Type 3 and 4 explore mechanisms of social change.

Sutton and Staw (1995) wrote that there is little agreement about what constitutes strong versus weak theory in the social sciences (Sutton et al., 1995) (see the Academy of Management Review, October 1989, volume 14, which provides a special forum on theory building). In order to understand complex social phenomena, the relevant question to ask is "why did it happen?". Elster (1989) argues that such an investigation involves examining mechanisms: "mechanism is what matters. It provides understanding, whereas prediction at most offers control" (Elster, 1989). So rather than focusing on statistical associations or other forms of relationships, it is important to investigate the mechanisms that drive the social phenomenon studied. Following Schelling (1998) scheme's, mechanisms provide a plausible account of how entities I and O are linked to one another (Schelling, 1998). In the case of the thesis, "I" would be ethical investment and "O" companies. The thesis explores the type of relationship between these two. Merton (1967) argues, in his concept of middle range theorising, that sociological theory should deal with "social mechanisms". Mechanisms constitute the middle ground between social laws and description. A law asserts that given certain initial conditions, an event of a given type (the cause) will always produce an event of some other type (the effect) (Elster, 1989). Mechanisms are elementary 'building blocks' of middle-range theories. "It helps to distinguish between genuine causality and coincidental association, and it increases the understanding of why we observe what we observe" (Hedström et al., 1998).

Hernes (1998) defines a mechanism as “an intellectual construct that is part of a phantom world which may mimic real life with abstract actors that impersonate human and cast them in conceptual conditions that emulate actual circumstances”. A mechanism is a set of interacting parts, it is “an abstract dynamic logic by which scientist render understandable the reality they depict” (Hernes, 1998). It enables us to model reality and to achieve a certain understanding of it. It is of course, as any model, a simplification of reality. Mechanisms make it possible to explain but not to predict (Elster, 1989). According to Herdström and Swedberg (1998) the mechanism approach can be characterised by four core principles:

- Explanation based on actions, meaning that it is actors and not variables who do the acting. A mechanism-based explanation refers directly to causes and consequences of individual actions oriented to the behaviour of others.
- Explanatory precision, referring to the middle range theory of Merton. It is not a law, but aims at explaining a limited range of phenomena.
- Abstraction, expressing the idea that effective theorising is not possible without a prompt elimination of irrelevant factors and a sharp focus on the central issue. It is through abstraction and analytical accentuation that general mechanisms are made visible.
- Reduction, meaning opening the black box, that is, thriving for narrowing the gap between input and output, cause and effect.

“Mechanism approach is a special style of theorising. This style can be roughly characterised by a focus on middle-range puzzles or paradoxes for which precise, action-based, abstract, and fine-grained explanations are sought” (Hedström et al., 1998).

In order to investigate the phenomena of interest in this research, it is necessary to have a theory that can provide a research design to explain both the development of ethical investment and its effect on corporations. The theory should should be broad enough to incorporate the influence of significant actors, and it is necessary to have a theory that integrates system dynamics. Influences exerted by a phenomena on organisations cannot be studied in a static way because it is the dynamics, mechanisms, flows, interactions, and feedback loops that bring the phenomena into life, involving change, influence, and evolution. Those are the cores of this research. One may find it contradictory to talk about system perspective and holism when one of the four principles of the mechanism approach is about reduction. However ‘reduction’ should not be taken as defined by Descartes in the 17th century but it should be understand as simplification with the explicit purpose of understanding (Le Moigne, 1990).

Whatever the theoretical approach is, one must be aware that any theory instructs us to look at phenomena in particular ways. Theory provides a framework for considering the social phenomena in questions. But theories are recreated by the authors who employ it (DiMaggio, 1995).

3.4 Institutional theory

Institutional theory offers a basis to investigate the research question of the thesis. Although some of the concepts of institutional theory were developed at the turn of the century, institutional theory is a relatively new theory. Its applicability and relevance to many disciplines has been studied in numerous researches over the last two decades. Institutional theory recognises 'the importance of the wider social and cultural environment as the ground in which organisations are rooted' (Scott & Christensen, 1995). According to Scott and Christensen (1995) institutional theory is best described as 'theoretical orientation –as a family of concepts and arguments- than as a tightly integrated, parsimonious theory'. However its explanatory power is pertinent to socially derived phenomena (Koziol, 2000). It provides theoretical ground for exploring social mechanisms; it addresses the organisational level and it looks at the way in which organisations function and change. Institutional theory constitutes the dominant theoretical perspective of this research. This section is a short introduction to the theory presenting the main developments and streams; for a more extensive and complete review see Scott (2001). The next section focuses on specific aspects that are relevant to the thesis.

Institutional theory represents a distinctive approach to the study of social, economic and political phenomena (DiMaggio & Powell, 1991). It traces the emergence of distinctive forms, processes, strategies, outlooks, and competencies as they emerge from patterns of organisational interaction and adaptation. Such pattern must be understood as responses to both internal and external environments (Selznick, 1996). The roots of institutional theory go back to the end of the 19th century, and are associated with Veblen, Commons, Marx, and Durkheim. The theory has been marked by a succession of developments within different disciplines, and approaches to institutions are very diverse (for a more complete review see (Hodgson, 2002; Nielsen, 2002; Scott, 2001). Although approaches differ, they have in common a "scepticism toward atomistic accounts of social processes and a common conviction that institutional arrangements and social processes matter" (DiMaggio et al., 1991). Analysing organisations' behaviour cannot be done in an atomised way because an organisation's behaviour cannot be analysed as atoms outside the social context; it is embedded in concrete, ongoing systems of social relations. Two important periods mark the development of institutional theory. They are referred to respectively as the old and new institutionalism.

The link between organisations and institutional argument is more recent. This perspective emphasises the ways in which action is structured and how order is made possible by shared systems of rules. Structure and system of rules constrain the inclination and capacity of actors to optimise as well as privilege some groups whose interests are secured by prevailing rewards and sanctions (DiMaggio et al., 1991). Three main schools contributed largely to the development of the theoretical stream. The first if the *Columbia School* which has been largely stimulated by the work of Weber (translated into English in the 1940s). A dominant researcher of this school is Philip Selznick (1948), whose work was strongly influenced by Merton. Selznick distinguished between organisation as 'the structural expression of rational actions' – as a mechanistic instrument designed to achieve specified goals – and organisations viewed as an adaptive organic system affected by the social characteristics of their participants and environments (Scott, 2001). He argues that social actions are not context-free but are constrained. He defines institutionalisation as a process that happens to organisations over time. A few years later, at *Harvard School*, Talcott Parsons (1956) applied his general cultural-institutional arguments to organisations. He examined the relation between organisations and their environments. He was interested in the ways in which the value system of an organisation is legitimated by its connections to the main institutional patterns in different functional contexts (Scott, 2001). He differentiated between three levels within organisations: the technical, concerned with production; the managerial, concerned with control and coordination activities; and the institutional, concerned with relating the organisation to the norms and conventions of the community and society. The third school is the *Carnegie School*, with Herbert Simon (1945). Simon, a political scientist, developed a theory of administrative behaviour as a reaction against conventional economic theories. He was among the first theorists to link the limits of individual cognitive capacity with the features of organisational structure (Scott, 2001). According to him behaviour is rational in organisations because choices are constrained, and individuals are guided by rules. In 1958, March and Simon argued that organisations, by developing routines, shape the behaviour of participants, entailing a reduction in individual choices (March & Simon, 1993).

The new institutionalism emerged in the late 1970s from the works of Williamson (1975), Hannah and Freeman (1977), Pfeffer and Slancik (1978), Meyer and Rowan (1977), Scott (1991), Zucker (1977), and DiMaggio and Powell (1983). It has provided the basis for much organisational theory for the past decades (Mizruchi & Fein, 1999). This approach has its roots both in the works on institutional theory by Selznick, Gouldner, and Zald as well as the social constructionist literature in sociology, such as Berger and Luckmann,

1967. Its two primary foundational works are the articles of Meyer and Rowan (1977) and DiMaggio and Powell (1983).

Both old and new institutionalisms reject rational models of organisation. They both emphasise the relationship between organisations and their environments. If both argue that institutionalisation constrains organisational rationality, they identify different sources of constraints. Old and new institutionalism are characterised by numerous, crucial differences in terms of analytic focus, approach to the environment, views of conflict and change, and images of individual action. New institutional theory involves an interest in institutions as independent variables, a turn toward cognitive and cultural explanations, and an interest in properties of supra-individual units of analysis that cannot be reduced to aggregations or direct consequences of individuals' attributes or motives (DiMaggio et al., 1991). For further insights into the comparison between old and new institutionalism see (Brinton & Nee, 1998; DiMaggio et al., 1991; DiMaggio, 1991).

Meyer and Rowan view institutions as complexes of cultural rules (Meyer et al., 1977a). Rational beliefs are seen as important elements of institutionalisation. Rationalisation occurs through professions, nation-states, and the mass media, whose efforts support the development of larger numbers and more types of organisations (Scott, 1991). Organisations are the result of the increasing rationalisation of cultural rules that provide an independent basis for their construction. Whereas Rowan and Meyer emphasise the macro side of institutionalisation, Zucker looks more closely at the 'micro-foundation' of institutions (Zucker, 1991)). DiMaggio and Powell (1983) develop the macro perspective that has become the dominant emphasis in sociological work (Mizruchi and Fein (1999) recorded that DiMaggio and Powell' paper of 1983 received 160 citations from 1984 to 1995 in six major journals (Mizruchi et al., 1999)). They distinguish between three mechanisms – coercive, mimetic, and normative – by which institutional effects are diffused through a field of organisations. It is important to note that all the new institutionalism authors mentioned identified the organisational field as the level of analysis more particularly suited to the study of institutional processes (Scott, 1991). Scott (1991) identifies three analytical elements that compose institutions. They are the regulative, normative and cultural-cognitive systems. 'These elements are the building blocks of institutional structures, providing the elastic fibres that resist change' (Scott, 2001). These three pillars are developed later in this section.

Despite the considerable development of new institutionalism in the social sciences, for the purpose of this thesis the focus is on new institutionalism in organisational analysis (DiMaggio et al., 1983; Meyer et al., 1977a; Scott et al., 1983; Zucker, 1977). As it will be shown later on, institutionalisation is a process by which meaning is created (Scott, 1987). The next section focuses on the mechanisms that underlie the process of institutionalisation.

3.4.1 Institution

There are many definitions of 'institutions'. The interpretation differs depending on the perspective: historical, sociological, political, or economic. Koziol (2000) gives a list of 16 definitions which, she says, is only a sampling of definitions. There is a huge variety and vagueness in the proposed definitions of institution.

Jepperson defines institutions as a social order or pattern that has attained a certain state or property, and institutionalisation as the process of such attainment (Jepperson, 1991). According to North (1990) the major role of institutions is to reduce uncertainty by establishing a stable structure (but not necessarily efficient) to human interaction" (North, 1990). The structure constrains human activities by limiting the set of choices of individuals.

Rather than giving a definition, Scott (2001) lists a number of characteristics specific to institutions:

- "Institutions are social structures that have attained a high degree of resilience.
- Institutions are composed of cultured-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life.
- Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines and artefacts.
- Institutions operate at multiple levels of jurisdiction, from the world system to localised interpersonal relationships.
- Institutions by definition connote stability but are subject to change processes both incremental and discontinuous."

Scott identifies three pillars that support institutions, namely the regulative, normative and cognitive elements (see Table 10). They provide stability and meaning to social behaviour. The three elements are important and although operating through distinctive mechanisms and processes, all of them may work in combination. The regulative pillar focuses on rules and laws as legally sanctioned by major players like the state and other authorities. The primary mechanism of control is coercion. The normative pillar emphasises normative rules that introduce prescriptive, evaluative, and obligatory norms (Scott, 2001). So norms and values are both included, where values refers to the preferred or the desirable, and norms to how things should be done. The normative element defines goals or objectives but it also indicates the appropriate ways to pursue them. It therefore specifies how actors are supposed to behave. It imposes constraints on social behaviour conferring rights as well as responsibilities, privileges as well as duties, licenses as well as mandates (Scott, 2001). Certification and accreditation are usually employed as an indicator for legitimacy. The third pillar (the cognitive) underlines the shared conceptions that constitutes the nature of social reality. It recognises that internal interpretative processes are shaped by external cultural frameworks. The mechanism underlying this element is mimetism.

	Regulative pillar	**Normative pillar**	**Cognitive pillar**
Mechanism	Coercive	Normative	Mimetic
Indicators	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logics of action

Table 10 – Institutional pillars (extracted from (Scott, 2001))

Institutions promote stability by installing values (Scott, 1987). According to Scott (2001), institutions constrain and regularise behaviour. Jepperson (1991) says that they are 'vehicles for activity within constraint'. They help as much as they constrain. They enable people and/or organisations to deal with uncertainties by providing patterns, but they also limit choice. Organisations are not free to act as they want. Their actions are bounded in a constellation of constraints. Options are limited, which leads organisations to become alike through making similar choices. As a result organisations get to a stage of homogenisation.

3.4.2 Isomorphism

Much institutional theory research has examined isomorphism and especially the causes of isomorphism (Davis, 1991; DiMaggio et al., 1983; Mezias, 1990; Palmer, Jennings, & Zhou, 1993; Tolbert & Zucker, 1983) and its consequences (Jepperson, 1991; Zucker, 1987). An important consequence of institutional isomorphism is organisational legitimacy (DiMaggio et al., 1983; Meyer et al., 1977a; Meyer et al., 1983b). Deephouse (Deephouse, 1996) tests whether organisational isomorphism increases organisational legitimacy in the banking sector. He focuses on two types of legitimacy by examining the evaluations of two social actors, government regulators and the general public. Results show that isomorphism in the strategies of the banks is related to legitimacy conferred by regulators and media.

To describe the process of homogenisation DiMaggio and Powell (1983) refer to the concept of isomorphism. It is defined as a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions (Hawley, 1968, in (DiMaggio et al., 1983)). They add in a footnote that the theory of isomorphism does not address the psychological states of actors but the structural determinants of the range of choices that actors perceive as rational or prudent. Isomorphism is a process through which various factors lead organisations to adopt similar structures, strategies, and/or processes. DiMaggio and Powell distinguish between two types of isomorphism, competitive and institutional. Competitive isomorphism comes from a rationality that emphasises market competition, niche change and fitness measures. According to DiMaggio and Powell, competitive isomorphism presents a limited picture of organisation. It needs to be complemented by institutional views on isomorphism involving organisational competition for political and institutional legitimacy as well as market position. Similarity does not arise through competition or objective requirements of efficiency but rather as a result of organisations trying to attain legitimacy within their larger environments. Institutional isomorphism provides a 'useful tool for understanding the politics and ceremony that pervade much modern organisational life" (DiMaggio et al., 1983).

The isomorphism processes do not have an immediate effect. Homogenisation is time related. In the early years of an organisational field – that is, a group of organisations that constitute a recognised area of institutional life – organisations that compose it may be very diverse. DiMaggio and Powell argue that the diversity disappears over time and organisations come increasingly to resemble one another. They identify three mechanisms through which institutional isomorphism change occurs: coercive, mimetic and normative isomorphism. These three types derive from different conditions and may lead to different outcomes. These mechanisms are of special interest for the purpose of the thesis. It will enable a better understanding of the rationalisation(s) that is leading the field and thereby a better understanding of corporations' responses to ethical investment. Investigation of the mechanisms will generate knowledge about the pressures exerted by ethical investment. The thesis devotes a specific section to the three institutional mechanisms (see section 3.5).

3.4.3 Organisational field

A key concept of institutional theory is the organisational field. It is an open concept that identifies a number of nodes or points of observation in the analysis. DiMaggio and Powell (1983) define organisational field as referring to "those organisations that in the aggregate, constitute a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services or products…. The virtue of organisational field as unit of analysis is that it directs our attention not simply to competing firms, …., or to networks of organisations that actually interact, …,but to the totality of relevant actors"(DiMaggio et al., 1983). Fields identify communities of organisations that participate in the same meaning systems, are defined by similar symbolic processes, and are subject to common regulatory processes. Scott's definition is broader than that from DiMaggio and Powell. He includes into the definition the rules and norms that allow the field to function (Scott, 1994). Scott suggests an organisational field is "a set of diverse organisations attempting to carry on a common enterprise" (Scott et al., 1995)]. He defines organisational field as "a community of organisations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside of the field" (Scott, 1994). For Bourdieu fields of activity are contested arenas that emerge from struggles over scarce capital. They are port hoc and empirical descriptions of realms of activity. "To think fields is to think relationally" (Bourdieu & Wacquant, 1992). A field designates an arena of struggle where resistance to the dominant power exists.

The advantage of using the concept of organisational field is that it enables one to isolate a system of organisations that are directly or indirectly linked (Scott, 1998). An organisational field is constituted by organisations that consider each other relevant. So fields are not fixed group of organisations, but they may vary as the perception of relevance differs per individual. Moreover, institutional fields do not emerge fully formed. On the contrary they evolve over time through different stages of increasing structuration (DiMaggio et al., 1983). The stages take place in the process of institutionalisation. In order to better understanding the dynamics that are taking place in the field of ethical investment, it is essential to be able to identify at what stage of development the field is in, as the processes and characteristics vary. The next section depicts the process of institutionalisation and its different phases.

3.4.4 Process of institutionalisation

Berger and Luckmann identify institutionalisation as a core process in the creation and perpetuation of enduring social groups (Berger & Luckmann, 1967). Traditionally, new institutional theory has paid less attention to the issue of institution formation than to the diffusion of established institutions and their effect on the organisations in a field (Jespersen, Nielsen, & Sognstrup, 2001). Nonetheless models have been developed for analysing the process of institutionalisation.

Zucker asserts that "institutionalisation is both a process and a property variable. It is the process by which individual actors transmit what is socially defined as real and, at the same time, at any point in the process the meaning of an act can be defined as more or less a taken-for-granted part of this social reality. Institutionalised acts, then, must be perceived as both objective and exterior" (Zucker, 1977). So institutionalisation is viewed as the social process by which individuals come to accept a shared definition of social reality. It operates to produce common understandings about what is appropriate and, fundamentally, meaningful behaviour (Zucker, 1983). "Institutionalisation involves the processes by which social processes, obligations, or actualities come to take on a rule like status in social thought and action"(Meyer et al., 1977b). According to DiMaggio and

Powell (1983) the process of institutionalisation is characterised by four elements that are recognisable in any institutionalised field (DiMaggio et al., 1983):

1) An increase in interaction among organisations within a given field;
2) The development of inter-organisational structures of control and relational patterns;
3) An increase in the amount of information that organisations within the field must process; and,
4) The development of mutual awareness by members of the field.

Scott (1994) adds to this characterisation a number of other factors indicating an increasing degree of structuration (Scott, 1994):

5) An increase in agreement about the institutional logic within the field;
6) An increase in isomorphism regarding the structural form a given organisation must adopt within a particular organisational field;
7) An increase in the structural equivalence of organisational relations within the field;
8) The evolution of an increasingly clearer boundary between the field and other social structures, and
9) The development of a form of order within the field, meaning that a uniform awareness concerning the status of various organisational forms is created.

Through the process of institutionalisation, fields become highly structured. This process serves to stabilise and routinise interactions between participants by integrating them within the structure of the field. As a consequence, organisations within a highly structured field exhibit convergence towards normative practices, thereby lessening the diversity of practices and organisational forms within the field. As a result organisations tend to become homogeneous.

Based on the work of Berger and Luckmann (1967), Tolbert and Zucker have designed a model of three stages of institutionalisation (see Table 11). They suggest a process of institutionalisation in an organisational context – whilst Berger and Luckmann focused on the occurrence of institutionalisation processes among individual actors – divided into three levels of institutionalisation: habitualisation, objectivation and sedimentation (Tolbert & Zucker, 1996). For any process of institutionalisation to start an innovation, an idea or a new concept are needed that must go beyond the oral phase into the written phase (Hasselbladh & Kallinikos, 2000), which must be diffused. The diffusion of innovations is essentially a social process and the meaning of an innovation is gradually worked out through a process of social construction (Rogers, 1995).

A. Habitualisation or the pre-institutionalisation stage

Habitualisation refers to behaviours that have been developed empirically and adopted by an actor or a set of actors in order to solve recurring problems (Tolbert et al., 1996). It can be described as a pre-institutionalised institution. It marks the transition to action in that certain organisations will move from discussion to action. The innovation may still be subject to significant differences in acceptance and interpretation in the field, although the phase of habitualisation involves the development of shared definitions or meanings. The level of dissemination may depend on whether it involves homogenous organisations and is supported by professional norms and/or political-administrative hierarchies (Jespersen et al., 2001).

Habitualisation involves the generation of new structural arrangements in response to a specific organisation problem or set of problems. At this stage organisations, as part of their searching solutions, look at what the others are doing. They may imitate each other. There may be multiple adopters but in few numbers, limited to a circumscribed set of similar, possibly interconnected organisations facing similar circumstances, and to vary considerably in terms of the form of implementation. Such structures will not be the object of any sort of formal theorising and knowledge of the structures among non-adopter-especially those that are not in direct, frequent interaction with adopters- will be extremely limited, in terms of both operations and purpose (Tolbert et al., 1996).

B. Objectivation or semi-institutionalisation stage

Objectivation involves wider dissemination and a greater degree of consensus on the content and value of an idea. Exchange of positive experiences or authoritative mechanisms may further the process. Professionals or their associations may play an important role as sources of dissemination, but powerful actors such as high ranking administrators or other bodies can also function as facilitators by advocating the importance of the new institutions. Even though an innovation has reached the objectivation phase, not all of them will survive (Jespersen et al., 2001).

Exchange of positive experiences:

- Organisations gather evidence from various sources to assess the risk parameters of adopting a new structure. Other organisations have already pre-tested the structure, and decision-makers' perceptions of the relative costs and benefits of adoption will be influenced by observation of other organisations' behaviour. Thus the more organisations that have adopted the structure, the more likely will decision-makers perceive the relative balance of costs and benefits to be favourable.
- Champion's role: set of individuals with a material stake in the promotion of the structure (DiMaggio, 1988). Some specific interest groups do play an important role

in promoting structural changes in organisations because they have a specific interest in it. Champions are most likely to emerge when there is a large potential market for the innovation (e.g. when environmental changes have adversely affected the competitive positions of a number of established organisations). To be successful champions must achieve two major stages of theorisations (Strang & Meyer, 1993): creation of a definition of a generic organisational problem, a definition that includes specification of the set or category of organisational actors affected by the problem; and justification of a particular formal structural arrangement as a solution to the problem on logical or empirical grounds (see (Galaskiewicz, 1985)). Theorising invests the structure with both general cognitive and normative legitimacy. On the basis of such theorising, and the accompagnying evidence, champions encourage the diffusion of structures throughout a set of organisations that are not otherwise directly connected.

Structures that have been subject to objectivation and have become widely diffused can be described as being at the stage of semi-institutionalisation. At this stage adopters have become quite heterogeneous. The impetus for diffusion shifts from imitation to a more normative base, reflecting implicit or explicit theorisation of structures. As theorisation develops and becomes more explicit, variance in the form that the structures take in different organisations should decline. Although the rate of survival of structures at this stage of institutionalisation is longer, not all will persist indefinitely.

C. Sedimentation or full institutionalisation stage

The sedimentation phase, during which the innovation is fully institutionalised, is characterised by complete dissemination to organisations in the field and by significant continuity in time and space. Successful institutionalisation depends on weak resistance from actors, continuous social and cultural support, and noticeable results (Jespersen et al., 2001).

Full institutionalisation involves sedimentation. This means that the structure has survived over time. Sedimentation is characterised by, firstly, the complete spread of structures across the group of actors theorised as appropriated adopters and, secondly, the perpetuation of structures over a lengthy period of time. Sedimentation is possible if there is only weak resistance from actors. Significant resistance would affect the extent of diffusion and the long-term retention of the structure. Another factor affecting the sedimentation phase if the availability of demonstrable results. A weak positive relation between a given structure and desired outcomes may be sufficient to affect the spread and maintenance of structures. Full institutionalisation of a structure is likely to depend on the joint effects of relatively low resistance by opposing groups, continued cultural support and promotion by advocacy groups, and positive correlation with desired outcomes.

Dimension	Pre-institutionalisation stage	Semi-institutionalisation stage	Full-institutionalisation stage
Processes	Habitualisation	Objectivation	Sedimentation
Characteristics of adopters	Homogeneous	Heterogeneous	Heterogeneous
Impetus for diffusion	Imitation	Imitative/normative	Normative
Theorisation activity	None	High	Low
Variance in implementation	High	Moderate	Low
Structure failure rate	High	Moderate	Low

Table 11 – Stages of institutionalisation and comparative dimensions (extracted from (Tolbert et al., 1996))

3.4.5 Transformation and de-institutionalisation

The institutional process overlooks two essential dimensions. Both are situated at the two extremities of the process of institutionalisation. One concerns the start of the process and the other one concerns its end. The two dimensions are close to each other as they both deal with deinstitutionalisation: deinstitutionalisation because new processes of institutionalisation are transforming the present institutions, and deinstitutionalisation because over time the institution fades away.

The models introduced in the previous section omit the phase of transformation and/or deinstitutionalisation. The institutionalisation process is presented as starting from a state of nothingness, emptiness, and ending in a state of stability. However one may wonder: (1) What are the repercussions and impacts of a new institutional field on existing fields? (2) Are institutional fields established forever? Referring to an organisational life cycle, it is likely that a field will at a certain moment reach a phase of decline. This phase is considered neither in Tolbert and Zucker's model nor in Berger and Luckmann's. A new institutional field appears because of a certain context, it does not come from nothing but leans on, uses, and transforms existing elements out of which a new field emerge. This process has repercussions on existing fields that may entail a disappearance or change. Although institutional theory emphasises the cultural persistence and endurance of institutions, under a variety of conditions, they are susceptible to dissipation, rejection or replacement (Oliver, 1992). As would say Boulding there is an "inexorable and irreversible movement towards the equilibrium of death" for all organisms ("individuals, families, firms, nations, and civilisations") (Boulding, 1950). All growth must run in to eventually declining (Boulding, 1953). If not, there would eventually be only one object in the universe. This section considers literature on the ‘deinstitutionalisation’ issue.

Institutions may, at different times, disappear or move towards the phase of deinstitutionalisation. This refers to the processes by which institutions weaken and disappear (Scott, 2001). Oliver (1992) defines it as “the process by which the legitimacy of an established or institutionalised organisational practice erodes or discontinues” (Oliver, 1992). Deinstitutionalisation means that at a certain moment and under certain conditions the social consensus around the meaning and the value of an activity has deteriorated. It calls into question the stability and longevity of institutional values and practices. Institutions are also vulnerable to reassessment and rejection.

From weakened law and increase in non-compliance, to the erosion of norms or of cultural beliefs, reasons for deinstitutionalisation can be numerous. Zucker (1988) suggests that institutionalised elements may erode due to incomplete social transmission. It may lead to social entropy, a tendency toward disorganisation in the social system (Zucker, 1988). Rules are modified under the pressures of varying circumstances and roles eroded by the personal characteristics of those who play them. Oliver (1992) describes three general types of pressure toward deinstitutionalisation: political, functional, and social. Political pressures result from a changing power distribution that provided support for existing institutional arrangements. It happens when a specific stakeholder from an organisation with a growing power or visibility no longer holds any interest in sustaining an institutionalised practice or perceives the practice as conflicting with their own agendas or beliefs. Functional pressures question the instrumental value of an institutionalised practice (technical or functional consideration). Deinstitutionalisation may be the consequence of changes to the perceived utility or technical instrumentality of an institutional practice. If, for example, the economic criteria of efficiency and effectiveness begin to conflict with institutional definitions of success, the institutionalised practice might be reassessed. When social and economic objectives are conflicting, it is most likely to lead to the deinstitutionalisation of institutional practices, for example when important actors reorient their demands on the organisation so that the organisation is rewarded less for the sustained implementation of institutionally accepted structures and procedures and more for the social and environmental added value of its outputs (e.g. external ethical rating). Social pressures relate to differentiation of groups and the existence of heterogeneous, divergent, or discordant beliefs and practices. These may be due to three sources: firstly social fragmentation and historical discontinuity, for example when the turnover of people is high, secondly external social pressures, including changes in government and societal values or expectations, and finally structural disaggregation (structural differentiation, diversification and geographic dispersion).

Institutional researchers have shown little interest for the deinstitutionalisation phase (Oliver, 1992; Scott, 2001). The main focus has been the way to stability and repetition without considering that the process may end. Therefore empirical studies have mainly investigated rule-like status and resistance to change. Scott (2001) describes some studies that have focused on deinstitutionalisation (Geerts, 1971; Tolbert and Sine, 1999; and Greve, 1998) but as he notes, the indicators employed to assess the extent of deinstitutionalisation are very loose, they "range from weakening beliefs to abandonment of a set of practices" (Scott, 2001). Zucker (1991) refers to change theorists who have given broad explanations of organisational change on the basis of changing interpretative schemes and institutional resistance to fundamental organisational transformations (see (Zucker, 1991)). This falls out of the scope of this research, but in order to broaden the views on deinstitutionalisation it would be of interest to look at organisational growth and decline processes (see (Whette, 1987)) as well as organisational learning and unlearning (Argyris & Schoen, 1978)].

The description of Triodos case in chapter 2 pointed at some elements characteristic of an institutional field such as standardisation, formalisation, or structuration. However it needs to be further studied and especially to broaden the analysis to the whole field of ethical investment. DiMaggio & Powell (1983) and Scott (1994) provide useful characteristics in order to explore whether or not ethical investment has emerged as a field. Tolbert and Zucker's model of stages of institutionalisation will also be used to identify in which phase of institutionalisation ethical investment finds itself. This last remark on transformation and deinstitutionalisation may be of particular interest for studying the field of ethical investment. The movement of ethical investment started as a reaction against rules and values especially within the financial world. The movement broke into the investment sector in order to change these social norms. It would be interesting to investigate whether institutionalisation has transformed the initial movement, and if it did so, how and why.

3.5 Mechanisms of institutionalisation

Once a set of organisations has become a field, specific dynamics and mechanisms arise. As a result organisations tend to resemble one another because institutions, directly or indirectly, intentionally or unintentionally, exert pressures on the organisations of the field. In the long-term organisations become alike. Homogenisation happens because, according to DiMaggio and Powell, the process of institutionalisation gives rise to mechanisms that exert pressures on organisations and compels them to conform to the pressures. If, during the pre-institutionalisation phase pressures will not be felt as highly constraining, in the full institutionalisation stage they will become rule-like and therefore difficult to bypass. Therefore it is important to know the level of institutionalisation. Depending on the level of institutionalisation, isomorphic processes will differ. According to Powell and DiMaggio it is during the last stage – what they call field maturity – that the institutional process paves the way for field stability. DiMaggio & Powell (1983) identify three mechanisms through which isomorphic change occurs: coercive forces that stem from political influence and problems of legitimacy; mimetic changes that are responses to uncertainty; and normative influences resulting from professionalisation. These mechanisms involve organisational competition for political and institutional legitimacy as well as market position.

These mechanisms are important to understand because they create a certain dynamic that supports change. These social processes are macro level mechanisms happening outside the organisation but within the organisational field, involving each organisation of the field, and affecting individual organisations as well as the whole field. These three mechanisms help to get an understanding of why organisations went from state 'A' to state 'B'. It focuses on the transitional aspects of change. If ethical investment has become, or is in a process of becoming, an institutional field, the mechanisms may be recognisable. The mechanisms may not only reinforce the institutionalisation but also affect firms' behaviour.

The next three sections provide an introduction to the three mechanisms. Although the mechanisms are presented separately, all three are connected and not necessarily empirically distinguishable (DiMaggio et al., 1983). Each involves a separate process. They tend to derive from different conditions and may lead to different outcomes. But two or more could operate simultaneously and their effects will not always be clearly identifiable. Indeed, institutional pressures may even be cross-cutting and lead to conflict (Davis & Powell, 1990).

3.5.1 Coercive mechanism

Coercive isomorphism is driven by two forces: pressures from other organisations on which a focal organisation is dependent and on organisation's need to conform to the cultural expectations of the larger society. In other words it stems from political influence and the problem of legitimacy (DiMaggio et al., 1983).

Coercive isomorphism, at least in the first instance, is thus analogous to formulations of the resource dependence model, in which organisations are viewed as constrained by those on whom they depend for resources (Pfeffer & Salancik, 1978). It refers to the type of conformity that develops when external organisations have the ability to demand compliance. Resource dependence theory proposes that the organisation is interconnected with the external environment and must respond to the expectations and pressures exerted by the various sources and that the pressures exerted upon organisations by various constituents may represent conflicting demands, the most urgent of which will be determined by which of the constituents has control over resource flows if resources are scarce, critical, and have no substitutes. Such constraints, in DiMaggio and Powell's view, could include pressures to bring an organisation's structure in line with the demands of powerful constituents. Such pressures may come from governmental mandate. DiMaggio and Powell (1983) provide some illustrations: a new environmental regulation whereby manufacturers conform to the new regulation by adopting new pollution control technologies; nonprofits maintaining accounts and hiring accountants to meet the requirements of tax legislation; restaurants maintaining minimum health standards; and organisations hiring affirmative action officers to fend off allegations of discrimination (DiMaggio et al., 1983).

Although coercive mechanism has been the most explored of the three mechanisms, several researches focus on it. An example is a study by Covaleski and Dirmith (1988) of the way in which a large state university was forced into conforming to the state government's budgeting procedures (Covaleski & Dirmith, 1988). They adopt what they call a "power" perspective and examine the university's budgeting process as an example of coercive isomorphism. Using archival and interview materials, the study is entirely based on qualitative data. Coercive dynamic has been also observed, for instance, in the savings and loan industry (Rao & Neilsen, 1992), in human resources management where Konrad and Linnehan (Konrad & Linnehan, 1995) study the importance of regulation for the imposition and inducement of organisational change, and in life insurance (Lehrman, 1994). Sutton *and al* (1994) investigate the adoption of disciplinary hearings and grievance procedures for nonunion salaried and hourly employees (Sutton, Dobbin, Meyer, & Scott, 1994). Their hypotheses focus on both coercive and normative forces. They show how the state exerts coercive pressure on organisations. Ginsberg and Buchholtz (1990) also consider the two mechanisms, coercive and normative (Ginsberg & Buchholtz, 1990). They investigate the shift from non-profit to for-profit status of health maintenance organisations due to dramatic changes in the federal government's policies and in consumers' expectations.

Coercive forces are not always direct and explicit. They may be more subtle and less explicit (DiMaggio et al., 1983) which might be more relevant for the case of ethical investment. In the ethical investment field the lead is not taken by the government. The role of the government might be indirect as, for example, it can regulate the information to be disclosed by corporations, that is the type and the way companies should report on social and environmental issues. At present, coercive pressures occur outside the governmental arena. And because of the relative small amount of money invested 'ethically', resource dependence may have little impact. But nevertheless ethical investment raises the problem of legitimacy in society at large. Moreover if a company wishes to be listed on a sustainable market index, it must follow a number of requirements without which it cannot be listed.

3.5.2 Mimetic mechanism

Uncertainty is a powerful force that encourages mimetic or imitative behaviour among the members of an organisational field. DiMaggio and Powell (1983) view mimetic isomorphism as a response to uncertainty. When organisational technologies are poorly understood, that is, when managers are unclear about the relationship between means and ends, when there is ambiguity regarding goals, when the environment is highly uncertain, or when a clear course of action is unavailable, organisational leaders may decide that the best response is to mimic a peer that they perceive to be successful (Davis et al., 1990). "When there is uncertainty, organisations imitate other organisations that are perceived to be successful and/or similar" (Meyer et al., 1977b). The modelled organisations may be unaware of the modelling or may have no desire to be copied. According to Davis and Powell (1990), "it merely serves as a convenient source of organisational practices that the borrowing organisation may use". Models may be diffused unintentionally and indirectly, for example through employee transfer, or explicitly, for example through consulting firms or industry trade unions. Uncertainty may cause managers to look outside their own organisations and incorporate the routines, practices, and structures of other organisations of the field. Uncertainty is a drive for mimetic isomorphism in which organisations adopt the legitimated practices of others.

Mimetic isomorphism is the mechanism that has attracted the most attention from researchers. There is an impressive number of articles focusing on this mechanism (see a review in (Mizruchi et al., 1999). The mimetic dynamic has been observed in various organisational populations, such as non-profit organisations (Galaskiewicz & Wasseman, 1989), banks (Lomi, 1995), audit services (Han, 1994), hospitals (Fennell & Alexander, 1987), college textbook publishers (Levitt & Nass, 1989), public schools (Rowan, 1982), municipal government (Tolbert et al., 1983), large corporations (Davis, 1991; Fligstein, 1985; Fligstein, 1987; Haveman, 1993; Mezias, 1990; Mizruchi & Stearns, 1988), and manufacturing industries (Bolton, 1993).

Fligstein (1985) tries to capture the mimetic effect concerning the adoption of the multidivisional form (MDF). He proposes to examine the percentage of firms in a particular industry that had adopted the MDF by the beginning of the decade in question. It yields to a supportive finding of four of Fligstein's hypotheses. Fennell and Alexander (1987) hypothesise that acute care community hospitals in the US are more likely to join multihospital systems in which multihospital systems already operate. The authors treat this hypothesis as an example of mimetic isomorphism. Galaskiewicz and Wasserman

(1989) argue that organisations are likely to mimic those with whom they have one or more boundary spanning ties. Examining contributions to 326 non-profit organisations by 75 for-profit firms, the authors examine DiMaggio and Polwell‘s suggestion that mimetic processes will tend to occur under conditions of uncertainty. Galaskiewicz and Wasserman show how isomorphism occurs through network ties. Findings are consistent with the authors’ hypothesis. Haveman (1993) combines institutional arguments with population ecology theory to show that California thrifts tended to imitate the behaviour of successful peers by following them into the same markets. She conceptualises this similarity of behaviour in terms of mimetic isomorphism. These examples are studies focusing on only the mimetic mechanism. Other studies like Mezias (1990) develops operational definitions for normative as well as mimetic isomorphism. Two studies by Levitt and Nass (1989) and Palmer, Jennings and Zhou (1993) operationalise the three isomorphic processes simultaneously (Palmer et al., 1993).

One issue that is often addressed in the mimetic mechanism is the social network. It is also relevant for normative mechanisms which are described in the next section. A social network across organisational boundaries helps to disseminate ideas and innovation throughout an organisational field (Galaskiewicz et al., 1989). According to Granovetter (1985) networks can be useful in overcoming uncertainty and distrust. Rogers (1983) shows how innovation spreads throughout a population via networks (Rogers, 1995). Galaskiewicz and Wasserman (1989) show the importance of networks in the mimetic process. They demonstrate that organisations are more likely to mimic organisations with which they have some ties. They show that intercorporate acquaintanceship networks affected decisions involving who would receive corporate philanthropy. Davis (1991) in a study on the adoption of the “poison pill” takeover defenses during the 1980s shows the importance of interlock network in the diffusion of the process. Haunschild (1994) also shows the importance of interlocks and relationships with professional firms for the acquisition premiums when acquiring another company (Haunschild, 1994). He shows that interlocks act as a mechanism for the transfer of major practices and structures among organisations.

The mimetic mechanism is of interest when studying the field of ethical investment. Firstly because being a rather new field it has to diffuse among financial institutions. Financial institutions may see in ethical investment some market opportunities and a potential to improve its own image. However they do not have experience in ethical investment. There are uncertainties about the way to assess companies. Therefore, many financial institutions may imitate the assessment methodology developed by other financial institutions. It is interesting to note that rating organisations have often been established by front runner banks (those that have first had an ethical investment fund) or have been created modelling the methodology of those banks. These same rating organisations now advise new financial institutions in the field on setting up ethical investment funds.

Secondly it may occur among corporations which are screened. None of them want to be the laggard of the sector. Therefore, companies may imitate the 'best' of the sector in order to respond in the best possible way to ethical investment pressures in order to be on the list of the 'ethical' companies.

3.5.3 Normative mechanism

Normative isomorphism describes the motivation of organisations to follow taken-for-granted norms. It results primarily from professionalisation. New-institutional theorists have pointed to the role of professions as powerful and important sources of rationalisation (Hall, 1968; Meyer et al., 1977a) and as primarily being sources of normative isomorphism (DiMaggio et al., 1983; Powell & DiMaggio, 1991). Many of the studies emphasising normative processes focus on professional or collegial networks (Ruef & Scott, 1998), on interlocking directorates (Palmer et al., 1993), or on the support provided by informal ties (Westphal & Zajac, 1994). They can affect prevailing rules, norms, and values that the organisations must meet to be recognised as legitimate (Scott et al., 1995).

"Professions are occupational groups that have achieved a high degree of control with their own field of work and the organisational framework and rules regulating this field" (Jespersen et al., 2001). DiMaggio views professionalisation as "the collective struggle of members of an occupation to define the conditions and methods of their work" (DiMaggio et al., 1983). Professional norms strive to define the conditions and methods of the work (Cartwright, 1998). Professions attempt to obtain normative control by regulating professional norms. Thus, professions function as sources of normative isomorphism, focusing on their role as carriers of institutional values, norms and practices. Beyond the field, professions seek regulative control by influencing public laws and regulations (Jespersen et al., 2001). Authers like (Abbott, 1988) and (Larson, 1977) have emphasised the complexity of the relationship between profession and state (complexity between intervention and autonomy).

Three important aspects of professionalisation are important sources of isomorphism (Powell, 1991). One of these is the growth of professional communities based on knowledge produced by university specialists and legitimated through academic credentials. The second is the growth and elaboration of formal and informal professional networks that span organisations and across which innovations may diffuse rapidly. These networks contribute to the rapid dissemination of new models in standardised forms. And the third is the emergence of career patterns and titles of professions.

Operationalisation of the normative mechanism is, according to Mizruchi and Fein (1999), the one mechanism that has received the least attention of the three. They list three articles focusing only on normative forces: Galaskiewicz (Galaskiewicz, 1985) studies the amount of money which nonprofit charitable organisations received from corporations in relation to professional networks; Galaskiewicz and Burt (1991) further investigate corporate philanthropy by developing two network contagion models to describe corporate contributions officers' evaluations of non-profit organisations (Galaskiewicz & Burt, 1991); and Mezias and Scarselletta (1994) examine the institutional process of financial reporting standards (Mezias & Scarselletta, 1994).

The three mechanisms previously described take place at the macro level, that is at the organisational field level. However at the micro level things may be much more complex and dynamic. The institutional mechanisms are the result of intense activity at the micro level. The mechanisms may not be known by individual organisations, but they all take part in them. It is a non-intended outcome of interactions at the micro level. The next section focuses on the organisation level and especially on the responses of organisations to the pressures exerted by the macro level.

3.6 Organisational responses to institutional pressures

The three mechanisms previously described, mimetic, coercive, and normative, are macro dynamics and forces outside organisations. These mechanisms contribute to the shaping of norms and values. However institutional theory has been criticised for emphasising too much passive compliance to institutional pressures while ignoring the capability of organisations to resist these pressures (Oliver, 1991). Institutional pressures limit the degree of choice of individual organisations and allow them a very limited range of behaviour. Recently institutional researchers have explored how organisations may respond "strategically" to institutional pressures. In an article of 1991, Powell suggests an extension of the scope of institutional theory by exploring the variation in institutional environments created by competing demands (Powell, 1991). Scott (2001) agrees that organisations may choose among a variety of strategies in response to institutional pressures (Scott, 2001). He nevertheless notes that researchers must consider how institutional environments influence and constrain the strategies organisations can use in a particular situation. Oliver (1991) proposes an alternative theoretical framework dealing with conformity and resistance to institutional pressures. She combines institutional and resource dependence theories, as (Goodstein, 1994; Greening & Gray, 1994) also did later on. If resource dependence theory agrees that environmental pressures limit choices, it nevertheless differs in the range of choice behaviour organisations may use to respond to these environmental pressures and the degree of flexibility the organisation has in adapting to its environment (Cartwright, 1998).

Oliver identifies different strategic responses that "organisations enact as a result of the institutional pressures toward conformity that are exerted on them" and she develops a "conceptual framework for predicting the occurrence of the alternative strategies" (Oliver, 1991). This conceptual framework enables us to examine how institutional pressures affect individual organisations. It focuses on the micro level. The framework outlines the likelihood of organisational resistance to external pressures for conformity in relation to the degree of pressures exerted by institutional expectations.

In order to be able to explore the research question of the thesis not only the macro level should be addressed – organisational field level – but also the micro level – the organisation level. One of the objectives of the thesis is to investigate the influence of ethical investment on corporations, and especially to research whether or not it stimulates corporations to shift towards sustainability. In the ethical investment field, firms are not passive organisations confronted with institutional pressures for conformity. In their attempt to cope with environmental constraints and uncertainty, they will most likely develop strategies to cope with institutional pressures.

3.6.1 Strategic responses

Oliver (1991) develops a typology of five potential strategies based on an integration of institutional and resource dependence theories. Oliver's framework incorporates the assumption that organisational resistance to institutional pressures is a strategic choice.

The strategic choice perspectives focuses on the actions organisational members take to adapt to an environment as an explanation for organisational outcomes (William Q. Judge & Zeithaml, 1992). Its proponents argue that there are numerous purposeful actions in organisations and that organisational members have substantial flexibility in shaping their own path. Strategic choice focuses on individuals and groups within organisations to explain organisational processes. This focus on behaviour assumes that organisational actors possess the discretion to act according to their own free will (William Q. Judge et al., 1992). Using this perspective Oliver argues that there is an interaction between firms and the environment, and that based on the dynamics of that interaction, management makes strategic decisions about the appropriate response. The strategies range from passive conformity to active resistance, and for each of them Oliver sub-divides three tactics.

Acquiescence

Organisational acquiescence depends on the organisation's conscious intent to conform, its degree of awareness of institutional processes, and its expectations that conformity will be self-serving to organisational interests. Acquiescence is mainly instrumental, aiming at enhancing legitimacy and social support

- Habit: organisations reproduce actions and practices of institutional environment that have become historically repeated, customary, conventional, or taken for granted.
- Imitate: consistent with the concept of mimetic isomorphism, it refers to either conscious or unconscious mimicry of institutional models (imitation of successful organisations and the acceptance of advice from consulting firms)
  - Comply: conscious obedience to or incorporation of values, norms, or institutional requirements and rules. Compliance is considered more active than habit and imitation, to the extent that an organisation consciously and strategically chooses to comply with institutional pressures in anticipation of specific self-serving benefits.

Compromise

Organisations are confronted with conflicting institutional demands, with inconsistencies between institutional expectations and internal organisational objectives related to efficiency or autonomy. Under such circumstances, organisations attempt to balance, pacify or bargain with external constituents.

This strategy is employed to conform to and accommodate institutional rules, norms or values, but in contrast to acquiescence, institutional compliance is only partial and organisations are more active in promoting their own interests.

- Balance: this refers to the accommodation of multiple constituent demands in response to institutional pressures and expectations. It is the attempt to achieve parity among or between multiple stakeholders and internal interests.
- Pacify: partial conformity with the expectations in order to conform to minimum standards. Energy is put into appeasing the institutional sources.
- Bargain: effort of the organisation to exact some concessions from an external constituent in its demands or expectations.

Avoid

Avoidance is defined as the organisational attempt to preclude the necessity of conformity. Organisations achieve this by concealing their nonconformity, buffering themselves for institutional pressures, or escaping from institutional rules or expectations. Avoidance is motivated by the desire to get round the conditions that make conforming behaviour necessary.

- Conceal: this involves disguising nonconformity behind a façade of acquiescence. It is often manifested in symbolic acceptance, ‘window dressing’. From an institutional perspective, the distinction between appearance and reality is a theoretically important dichotomy (Scott, 1983; Zucker, 1983), because the appearance rather than the fact of conformity is often presumed to be sufficient for the attainment of legitimacy.

- Buffer: this refers to an organisation's attempt to reduce the extent to which it is externally inspected, scrutinised, or evaluated by partially detaching or decoupling its technical activities from external contact.
- Escape: the organisation may exit the area within which pressures are exerted, by for example moving a manufacturing plant to another place were requirements are less stringent, or by changing its goal or activity.

Defiance

This is a more active form of resistance to institutional processes. A defiant strategy represents unequivocal rejection of institutional norms and expectations. It is more likely to occur when the perceived cost of active departure is low, when internal interests diverge dramatically from external values, when organisations believe they can demonstrate their rationality or believe they have little to lose by displaying their antagonism towards the constituents that judge or oppose them.

- Dismiss: organisations ignore institutional rules and values. This is more likely to happen when the potential for external enforcement of institutional rules is perceived to be low and when internal objectives diverge or conflict very dramatically with institutional values or requirements. The organisation counts on a limited chance of getting caught.
- Challenge: this is an active departure from rules, norms or expectations. It is more likely to happen when the challenge can be reinforced by demonstrations of organisational probity or rationality. For example a company may challenge a directive because it is not rational and it feels that its own behaviour is beyond reproach.
- Attack: this is a distinctly more intense and aggressive strategy to depart the institutional pressures and expectations. It is more likely to occur when institutional rules and expectations are organisation-specific rather than general or defocalised, when these values and expectations are particularly negative and discrediting, or when the organisation believes that its rights, privileges, or autonomy are in serious jeopardy.

Manipulate

Manipulation is intended to actively change or exert power over the content of the expectations themselves or the source that seeks to express or enforce them. It can be defined as a purposeful and opportunistic attempt to co-opt, influence, or control institutional pressures and evaluations. In the manipulation strategy, pressures and expectations are not taken as a given constraint to be obeyed or defied. Organisations seek to alter, re-create, or control the pressures themselves or the constituents that impose them.

- Co-opt: attempt to persuade an institutional constituent to join in the organisation or its board of directors. The intended effect of co-optation tactics is to neutralise institutional opposition and enhance legitimacy. For example, giving to a charitable foundation to demonstrate that the organisation is supporting something, or co-opting with important economic sectors in which the organisation is under regulation. The organisation's objective is to influence institutional sources or processes.
- Influence: this is more directed towards institutional values or beliefs, or the definition of criteria governing acceptable practices or performance. Performance in institutionalised environments is itself institutionally defined and prescribed (Hinings & Greenwood, 1988), the actual definitions and criteria of acceptable performance are often open to strategic reinterpretation and manipulation. The organisation's objective is to neutralise institutional sources or processes.
- Control: this refers to specific tactics to establish power and dominance over the external constituents that are applying pressure on the organisation. The organisation's objective is to dominate institutional sources or processes.

Goodstein (Goodstein, 1994) draws on Oliver's theoretical framework for identifying factors that influence the strategic responses of organisations to institutional pressures and specifically explores organisational responsiveness related to work and family issues. He has empirically tested four of the five strategic responses of Oliver's framework in the context of child-care services. Manipulation was not included in his test because it was considered as a non-viable strategy in this specific context. He presented hypotheses predicting which strategic response to institutional pressures was most likely in different situations based on a combination of institutional and technical factors. The strength of institutional pressures and the perceived positive or negative effects of implementing assessment practices on technical outcomes determined the strategic responses. Goodstein talks of strategic responsiveness rather than strategic resistance, term that Cartwright (1998) also uses.

Cartwright and Cashore & Vertinsky have criticised the typology proposed by Oliver. They say that it does not adequately consider strategy beyond acquiescence, leaving no category for firms that go beyond societal pressures, leading the way with innovation and pro-action (Cashore & Vertinsky, 2000). The typology does take into account active resistance but denies an active acceptance. Debra Cartwright proposes an extension of the model based on a combination of two primary theoretical perspectives, namely environmental determinism and strategic choice. She includes a category that she calls "internalisation" (Cartwright, 1998). When institutional norms and expectations are internalised, organisations may go beyond acquiescence and conformity. Cartwright argues that organisations may become opinion leaders and develop their internal practices beyond the current institutional expectations, or they may turn the institutional expectations into a competitive advantage and promote these values actively. For the purpose of her own research she needs to separate the two potential responses, acquiescence – that is the mere full conformity to institutional pressures – and internalisation – seeking a more active pursuit than mere compliance to the standards. Cashore and Vertinsky refer to a 'proactive category' (Cashore et al., 2000). The study investigates the effect of policy change on corporate choices. The fact that Oliver's categories stop at acquiescence is problematic because it is neglecting the fact that firms develop internal procedures for issue management that are able to be proactive and take a competitive advantage.

The missing category pointed out by Cartwright and Cashore brings an interesting element to the classification. It binds together the two extreme strategies of Oliver, acquiescence and defiance. The internalisation strategy does share one element with the acquiescence strategy: conforming to institutional pressures. According to Cartwright companies that are in this category fully conform to the institutionalised norms and have internalised them. What makes it different from the acquiescence strategy is that corporations do not only conform but also take an active role in promoting and developing institutional values. This is rather similar to the characteristics of the manipulation strategy where organisations try to actively change, influence or control the content of the expectations themselves. By developing and promoting institutional values organisations take a leading role. Is it not a way to reinforce its position and define the rules of the game? Being a leader means that other organisations will mimic/follow it. Little by little this leading organisation will naturally take an important role in developing, changing and influencing institutional values and norms.

The internalisation strategy is missing in the framework of Oliver. However the strategic responsiveness continuum presented by Cartwright may be criticised. It goes from the lower responsiveness to the higher responsiveness within which strategies go from defiance to internalisation. Firstly the word 'responsiveness' is confusing. It may be interpreted in two different ways, one related to strategic responses of companies, and the other one related to sensitivity especially when she talks about higher and lower responsiveness. This last meaning may be debated as organisations that conform may not always be the most sensitive to their environment but simply have objectives that make them comply. Secondly the presentation of the strategies in a linear way is questionable as it suggests that organisations adopt the strategies in a gradual way going from defiance to internationalisation. The last one being the 'best' one. However the way organisations adopt a strategy is not gradual and an organisation that is today proactively developing criteria, norms and value – applying an internalisation strategy – may in the future become the one that is the most resisting to change –shifting to a defiance strategy.

3.6.2 Institutional factors

What determines an organisation's strategy is its willingness and ability to conform or resist to institutional pressures. According to Oliver (1991) willingness is "bounded by organisational scepticism, political self-interest, and organisational control", while ability is bounded by organisational capacity, conflict and awareness. The willingness and ability of an organisation are driven by institutional factors which determine the choice of strategic response. Oliver defines ten factors that can be placed all along the chain of institutionalisation from macro to micro. Oliver (1991) argues that these factors determine the strength of institutional pressures facing the organisation, and that organisations will respond differently to these pressures. She positions the responses on a scale of levels of resistance. The degree of resistance or acquiescence to external pressures depends on the ten factors. Therefore firms, within the institutional mechanisms, have a margin of freedom on how to respond, and which strategy to adopt.

Oliver's factors are based on five basic questions which determine the choices made by the organisations: why these pressures are being exerted, who is exerting them, what these pressures are, how or by what means they are exerted, and where they occur. For each of the five questions – cause, constituents, content, control and context – she determines two dimensions (see Table 12).

Oliver's framework brings insights into the organisations' strategic responses to institutional processes. Although the framework is very clear, with well defined variables which all aim at predicting the occurrence of the alternative strategies, one may criticise its linearity. Oliver presents a very analytical framework which implicitly leads towards statistical analysis (see paragraph 3.6.3). She views factors in a simple causal relationship. However, institutional factors are not independent entities. They are interrelated and they do influence each other. Therefore it is necessary to add dynamics to Oliver's framework (through a system approach for example). This will make it possible to put the organisation or group of organisations studied and the variables in a new network structure that is not an analytical focus on one individual stakeholder or variable but rather a series of multilateral contracts among stakeholders and variables.

Institutional factor		Predictive dimensions
Cause:	The degree of social legitimacy or economic benefit which the organisation expects to derive from compliance with institutional expectations.	- Legitimacy or social fitness - Efficiency or economic fitness
Constituents	Multiple and conflicting pressures may be exerted on a corporation by numerous institutional constituents which constrain the organisation's ability to conform. The likely choice can be predicted according to the organisation's resource dependence on the constituents.	- Multiplicity of constituent demands - Dependence on institutional constituent
Content:	The content of the institutional demands and the degree to which they are congruent with organisational goals or the extent to which conformity to those demands would constrain organisational discretion determine the choice response; there may be an interaction of cause, constituents, and control, so that organisations would be willing to make a trade-off between discretionary power and economic viability when resource dependence on a particular institutional constituent is extreme	- Consistency with organisational goals - Discretionary constraints imposed on the organisation
Control:	This has to do with the degree of legal coercion implicit in the institutional demands and/or the extent of voluntary diffusion of institutional norms.	- Legal coercion or enforcement - Voluntary diffusion of norms
Context:	The degree of uncertainty in the organisation's environment and the degree of interconnectedness in the institutional environment.	- Environmental uncertainty - Environmental interconnectedness

Table 12 – Institutional factors (extracted from (Oliver, 1991))

3.6.3 Operationalisation of Oliver's framework

Oliver's framework of strategic responses to institutional pressures has been operationalised. The methodologies used are for a large part quantitative, trying to explain the causal link between dependent and independent variables. Out of the eight studies operationalising Oliver's strategic responses, six of them used a quantitative approach to test variables in a statistical manner.

Martens (1998) addresses the strategies used by organisations to manage external control and the conditions which affect their choice (Martens, 1998). He statistically tests resource dependence theory assumptions that organisations actively seek to avoid uncertainties created by dependencies and compares those assumptions to neo-institutional theory predictions. Using the typology and framework proposed by Oliver (1991), he examines the strategies of 344 organisations and 524 interdependent relationships between the organisations and their customers, distributors, manufacturers and suppliers. Although not particularly strong, the results of the study generally support Oliver's framework. Milliken et al (1998) use a multi-theoretical approach to explore why organisations vary in the degree to which they have adopted policies designed to help employees manage their work and family lives (Milliken, Martins, & Morgan, 1998). They examine how work-family responsiveness related to resource dependence and institutional factors as well as to factors capturing variation in managers' interpretation of work-family issues. Through a survey they statistically test their hypothesis. Although Oliver's framework is not at the centre of the research, one of the hypotheses (3c) is based on Oliver's argument. Ang and Cummings (1997) empirically test individual firms' strategic responses to institutional influences at a specific time, when hypercompetition has altered the competitive dynamics of the industry (Ang & Cummings, 1997). They focus on the banking sector. Using data from 226 banks and hierarchical moderated regression analyses, they show that the propensity of banks to conform to or resist pressures, increase the perceived gain in production economies, financial capacity to resist institutional influences, and transaction cost considerations. Godstein (1994) applies Oliver's framework to explore the extent of employer involvement in work-family issues, focusing in particular on child care and flexible workplace (Goodstein, 1994). He argues that organisations do not respond uniformly to institutional pressures, but adopt varying strategies that depend on the nature of the institutional impinging on them. He has investigated the sources of variation in the strength of institutional pressures and the strategic responses to these pressures through archival and survey data. The survey consists of 1239 organisations. Data are statistically treated through correlation analysis. Goodstein offers an interesting study on the causal dynamics of strategic choice in contexts in which institutional pressures are critical. His analysis confirms Oliver's approach: organisations adopt varying strategies that depend on the nature of the institutional pressures impinging on them. Ingram and Simons (1995) extend Goodstein's application of Oliver's framework integrating resource dependence and institutional theories to explain organisational responsiveness to work-family issues (Ingram & Tal, 1995). They use a representative national sample of organisations. Like Goodstein they test their hypotheses statistically. They also find strong support for Oliver's conceptualisation of the factors that affect organisations' degree of compliance with institutional pressures. And Cartwright (1998), in her dissertation, tests and extends the conceptual model of strategic responsiveness proposed by Oliver. She applies it to higher education (Cartwright, 1998). She looks at strategic responsiveness in a highly institutionalised context where conflicting institutional pressures exist. She proposes to extend the concept of strategic responsiveness to institutional pressures by adding an additional level of responsiveness beyond acquiescence that she labels internalisation. A Guttman scale is established for the dependent variable, which provides an ordinal scale that can be tested by calculating the coefficient of reproducibility. In total 492 schools are part of the analysis. Twelve hypotheses are posited to test the model. Results demonstrate partial support of the model.

Some researchers have applied qualitative approaches to investigate Oliver's framework. They are very few. Among them, we find Cashore and Vertinsky (2000). In their paper they explore forest companies' responses to pressures for increased environmental protection in North America (Cashore et al., 2000). In order to carry out the investigation, they developed a new theoretical framework, based on neo-institutional literature. They extended Oliver's framework by incorporating political science, more specifically policy network and regulatory regime literature, into it. They argue that the system of governance influences a firm's approach to different external pressures. Their model is then tested through three case studies. Satfford *et al* also use a qualitative approach. They look at the green alliances between environmental NGOs and businesses (Stafford, Polonsky, & Hartman, 2000). The authors argue that environmental NGOs can provide linkages to societal stakeholders, what they call strategic bridges, to support environmental initiatives. They argue first that to be successful alliances need to fulfil certain characteristics, and secondly that the alliance is influenced by stakeholder pressures. The second proposition is based on Oliver's framework. They investigate one case study, the alliance strategies between Greenpeace and Foron Household Appliances, a German corporation. The paper does not show strong conclusions and the way Oliver's framework is applied is not very clear.

3.7 Theoretical framework

The research questions of the thesis deal with institutional field formation and organisations' responses to institutional pressures. The underlying research question relates to ethical investment as a change agent towards sustainable development. The aim is not to predict change but to understand mechanisms driving the process. Therefore a mechanism-centred approach is adopted in order to bring about a certain understanding of the development of the ethical investment field, and corporations' responses to this phenomenon. Institutional theory provides a theoretical foundation for exploring social mechanisms and it provides insights into how institutional mechanisms come to act on an organisational field by focusing on the mechanisms of change.

This last section proposes a theoretical framework built on the theoretical perspective presented in the chapter, with a special focus on mechanisms. The framework will serve as a basis for the analysis of the empirical data. Table 13 and Table 14 summarise the characteristics of first institutionalisation and second corporations' responses to institutional pressures.

Figure 14 presents the general framework. It consists of two axes, one going from the micro to the macro level, and the second providing a time perspective. The institutionalisation process evolves over time, going through different stages: from pre-institutionalisation to full-institutionalisation (Tolbert et al., 1996). Although they are represented as equal, each stage may require more or less time to be reached. The stages are represented at the micro level because they are a quality of the field not of the organisations. It is therefore a macro level characteristic. From the institutionalisation process emerges a certain structure, certain norms and values that are shared and recognised by constituents of the field. Institutionalisation of a field may involve the deinstitutionalisation of another field, and for one reason or another, the field that has been, or is becoming, institutionalised may reverse the process and enter a phase of deinstitutionalisation. Although Figure 14 only shows the institutionalisation process, deinstitutionalisation should not be excluded.

The second level represented on the figure is the micro level. It consists of organisation responses to the institutional field. They may adopt different strategies: from manipulation to acquiescence (Oliver, 1991). Organisation responses may change over time. One organisation may adopt different strategies over time according to the level of institutionalisation of the field as different types of pressures may be exerted. And different organisations may adopt various during strategies in the same phase. The micro and macro levels are interrelated; change at one level entails change at the other and vice versa. Figure 14 emphasises two important elements: institutionalisation is a process involving (a) time and (b) two levels (micro and macro) that are interrelated and interact with each other through specific mechanisms. The mechanisms themselves may change over time or the pressures resulting from the mechanisms may evolve. The process is not linear, but it is a combination of feedback loops. Also, it is not a finite process, in the sense that although it has been extracted from a broader picture, it interacts with other processes or phenomena that are happening. Its evolution is therefore not independent from a larger system. However it is necessary to isolate the phenomenon under study to make it intelligible. One must keep in mind that it remains an artificial representation, which is simpler than the phenomenon observed (Boudon, 1986; Le Moigne, 1990).

Figure 15 zooms into Figure 14 at a specific moment ‘t’. It must be seen in relation to Figure 14. It emphasises the relationship between the micro and macro levels, that is the mechanisms that connect the two levels.

It emphasises the relationship between the micro and macro levels, that is the mechanisms that connect the two levels.

The theoretical framework outlines a number of aspects presented in the tables below. They are organised around the two main objectives of the dissertation. Empirical data will concentrate on each of these aspects. The operationalisation is further explained in Chapter 4.

This chapter outlined the general theoretical framework for proceeding with the analysis of field construction and organisations’ responses to institutional pressures. Before turning to the analysis of the empirical data (Chapters 5, 6 and 7), the next chapter will present the methodological approach chosen for this dissertation.

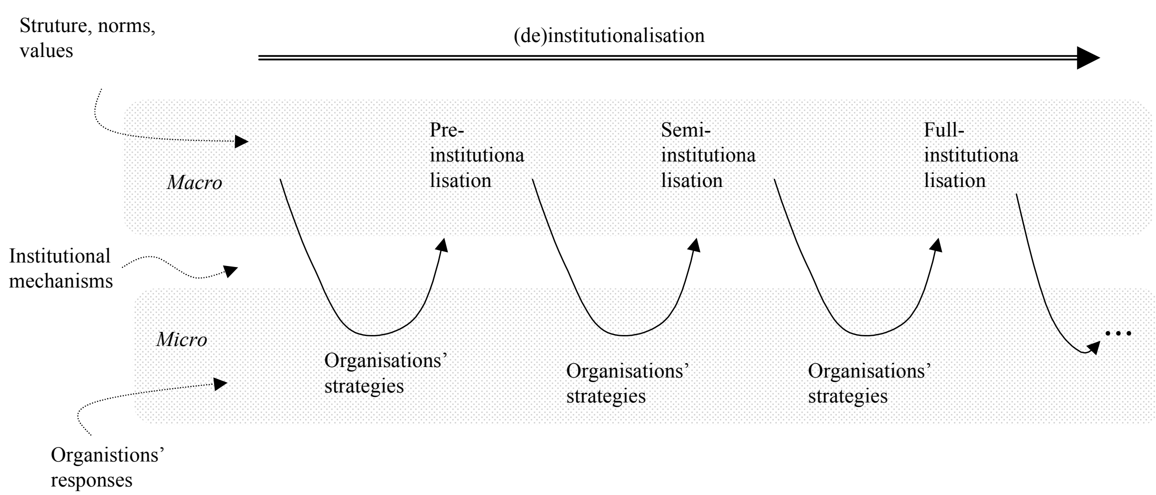


Figure 14 – General theoretical framework

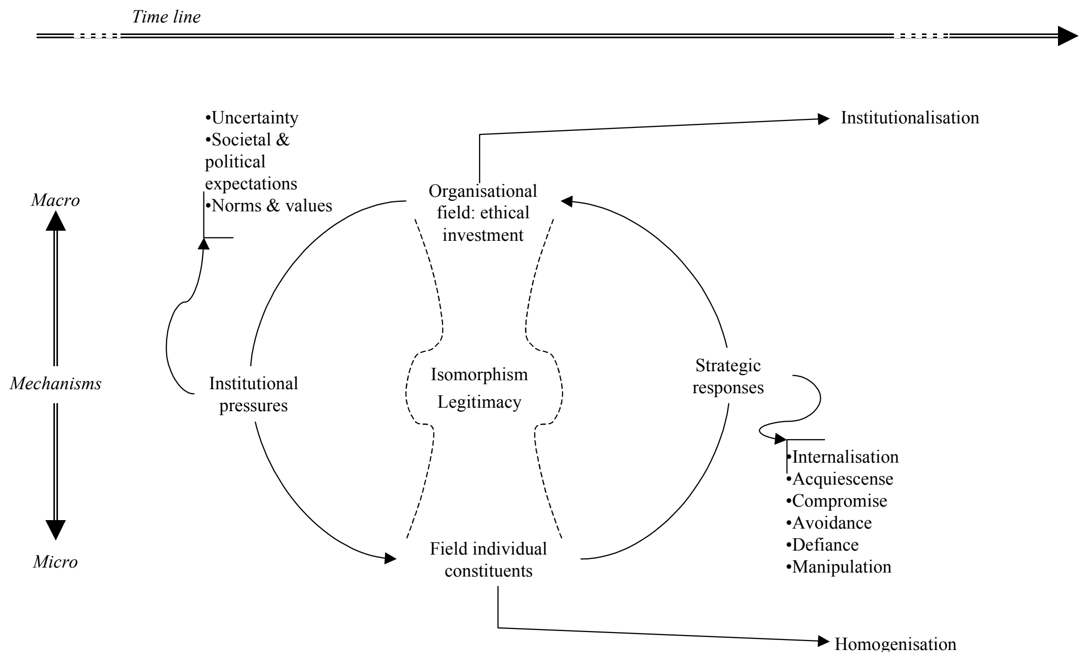


Figure 15 – Zoom in on a slice of the general theoretical framework

Structuration (DiMaggio et al., 1983; Scott, 2001)	Increases in the density of interorganisational contacts, Interlocks Increases in the flow of information Emergence of a clearly defined structure of domination and coalition Increased isomorphism of structural forms within populations in the field Resource centrality and dependency: resource providers, capital providers, resource dependence
Field boundaries (Scott, 2001)	Collective definition of a field (social identity) Extent of agreement on the institutional logics guiding activities within the field
Professionalisation (Larson, 1977; Wilensky, 1964)	Production of university-trained experts Creation of a body of knowledge Organisation of professional associations Consolidation of a professional elite Increasing the organisational salience of professional expertise
Normalisation (DiMaggio et al., 1983)	Increased structural equivalence of organisational sets with the field Increased clarity of field boundaries Emergence of certification, accreditation scheme Emergence of legal system

Institutional mechanisms (DiMaggio et al., 1983)	
Coercive pressures	Interlocks Rules, laws, sanction Control over the resource flows
Normative pressures	Professionalisation Normalisation/standardisation: certification, accreditation Diffusion of norms (channels)
Mimetic pressures	Competition within the sector of activity Uncertainty

Table 13 – Institutional field, characteristics and mechanisms

Cause *(why is the company being pressurised to conform to institutional expectations)*	
Social legitimacy	- Strategic utility - Legitimacy rationality - Organisational interest
Economic fitness	- Economic gain - Economic accountability - Economic rationalisation
Constituents *(Who is exerting institutional pressures on the company?)*	
Multiplicity (From constituents)	- Conflicting pressures; conflicting expectations - Incompatible and competing demands - Conflicting interests groups
Dependency (Organisation's dependence on the constituents)	- Constituent's in/ability to control the allocation or availability of some critical organisation resource - The organisation's willingness or ability to find alternative resources or resource suppliers.
Content *(To which norms or requirements is the **company** being pressurised to conform?)*	
Consistency (Constituents demands/organisations goals)	- Compatibility with internal goals - Validity or legitimacy of institutional expectations.
Constraint	- Loss of decision-making discretion that the pressures impose on the organisation - Constraint on substantive organisational decisions
Control *(How or by what means are the institutional pressures being exerted?)*	
Coercion (Legal coercion)	- Law, government mandate - Consequences of non compliance: punitive/enforcement system - Regulatory agencies - Mechanisms for enforcing compliance
Diffusion (Voluntary diffusion)	- Spread of values, practices or expectations - Imitation and contagion of legitimacy - Organisation awareness of the values and practices - Organisation scepticism
Context *(What is the environmental context within which pressures are being exerted?)*	
Uncertainty	- Environmental certainty and predictability - Knowledge of the values and norms
Interconnectedness	- Connectedness or fragmentation of the environment - Competition within the field

Table 14 – Corporations' responses to institutional pressures

Chapter 4 - Methodological considerations

4.1 Introduction

The previous chapters introduced the objectives of the research – examining the formation of the ethical investment field and investigating corporations' responses to pressures exerted by the field, the area studied – ethical investment and the theoretical framework based on institutional theory. Chapter 4 focuses on methodological considerations. The purpose is to clarify the approach used for collecting and analysing empirical data as well as present the limits of the chosen approach, and to identify the sources of empirical data.

The chapter is organised around two main sections: methodology, that is how one goes about studying the phenomenon, and methods, that is specific research techniques. The methodology section presents the choices related to the level of analysis, the type of research and the strategy of enquiry. The section on methods focuses on data collection and analysis.

4.2 Methodological choices

Institutional theory does not prescribe any specific methodology. It is not associated with any standard research methodology or even a set of methods (Tolbert et al., 1996). Studies have relied on a variety of techniques, including case analysis, cross-sectional regression, longitudinal models of various types and so forth. Empirical work in neo-institutionalism can be divided into two broad categories (Mohr, 1982; Scott & Meyer, 1994; Tolbert et al., 1996). The first is characterised by the application of quantitative analytic methods to a broad cross section of an organisational field or occasionally to panel data over a period of some years. These studies generally test neo-institutional theory against alternative theories of organisations (see (Galaskiewicz et al., 1989; Palmer et al., 1993; Tolbert, 1985). This has brought useful insights into the breadth and relevance of institutional arguments compared to other theories. A second research approach draws on qualitative techniques and close historical case studies to investigate field formation, the evolution of institutional forms, and the adoption of organisational practices across a broad period of time (Brint & Karabel, 1991; DiMaggio, 1995; Fligstein, 1991; Halliday, Granfors, & Powell, 1993; Holm, 1995; Suchman, 1995; Tolbert et al., 1983). They provide important insights into the sequence of actions and events that drive field formation.

For the purpose of this research, the methodological choices consist of field study, qualitative approach and case study as strategy of enquiry. These choices are motivated by the theoretical background and the research questions which ask for an organisational level of analysis and a mechanism approach. The following sections presents why the choices have been made and discuss their shortcomings.

4.2.1 A field study, towards a system approach

Field study has been chosen for three main reasons: it fits the level of analysis defines in the previous chapter that is organisational field; it offers a methodological pragmatism; and finally it gives the opportunity to adopt a system approach.

The organisational field is the level of analysis of the thesis (see chapter 3 for a definition of organisational field). The research questions of the thesis, and especially the first objective, look at the interrelations between a set of organisations forming the field of ethical investment. It does not focus on one organisation or one type of organisation but all the organisations taking part in the organisational field studied. It encompasses several groups of organisation such as financial institutions, rating organisations, corporations, and others. Field study provides the required level of analysis but also proposes a way to circumscribe the area of study which is the subject of the research (Burgess, 1984). However defining the empirical field is not an obvious task and as Anderson et al (1995) said "no matter how narrow the definition or how rich the repertoire of collected data, the exploration will never result in anything other than one of many possible interpretations" (Anderson, Borum, Kristensen, & Karnoe, 1995). This problem cannot be overcome however the interpretation can be made understandable but also subject to discuss by making choices as clear as possible. In order to define the boundaries of the field of ethical investment three sources of information were used. The advantage of these three sources is that each of them focuses on different elements that is actors, relations or activities (events). The observation-participation within Triodos Bank (see later in this chapter) offered rich data regarding the actors involved and the type of involvement they have. A second source was provided by the actors interviewed (see later in this chapter). It was asked to each of them who do they identify as part of the field. And the third source of information was the analysis of the lists of attendees to the Triple Bottom Line Investing conference from 1999 till 2002 (see chapter 6).

The second reason for which field study has been chosen is because it offers a methodological pragmatism (Burgess, 1984). It is way to study the phenomenon of ethical investment which fits the research questions and the theoretical perspective. It covers the exploration of complex, social, empirical phenomena through the application of multiple sources of data (Anderson et al., 1995).

The third advantage of field study is that it offers the opportunity to adopt a system approach because it looks at the whole, not only one agent or actor in the field but also interactions between agents, and emerging elements or characteristics. The system approach makes it possible to identify linkages among factors that provide an understanding of system behaviour over time (Kelly, 1998). It is appropriate to institutional theory that locates the source of various organisational practices and structural arrangements within a broader context (Davis et al., 1990). Rather than viewing the organisation independently of its environment, it puts it within its organisational context. It is one of the basic elements of institutional theory. Like institutional theory open systems theory insists on the importance of the wider context or environment as it constrains, shapes, penetrates, and renews the (Katz et al., 1978). Organisations or individuals cannot be separated of their environment, as there is an interaction between them and the environment and between the environment and them. Moreover, according to Forrester (1975), the system approach a way of getting better insights into the mechanisms and dynamics of social processes (Forrester, 1975) which is a central aspect of the research questions.

System approach, a brief presentation

Although system approach is not direct applied in this research, it is an important source of inspiration and influence. Therefore the following paragraphs introduce it briefly with a special focus on two concepts coming from this approach which are especially useful in the research, namely emergence and feedback concepts.

The concept of systems thinking has evolved from a number of intellectual traditions and has come to mean a multitude of different things (Richardson, 1991). Systems theory was proposed in the 1940s by the biologist Ludwig van Bertalanffy and further Poss Ashby. Von Bertalanffy was both reacting against reductionism and attempting to revive the unity of science. He emphasised that real systems are open to, and interact with, their environments and that they can acquire qualitatively new properties through emergence, resulting in continual evolution. Rather than reducing an entity to the properties of its part or elements, systems theory focuses on the arrangement of, and relations between, the parts which connect them into a whole (Bertalanffy, 1968). This particular organisation determines a system, which is independent of the concrete substance of the elements. The development of systems theory is diverse. There are a number of different definitions of the concept, but most include the notion of looking at the "big picture" while maintaining awareness of the interconnectedness of components of the big picture (Richmond & Peterson, 1994). This holistic approach is a particular importance for investigating the institutionalisation process of ethical investment. Although researchers have limitations as of how much they can integrate in their studies, it is important to be aware that the research takes in consideration only one small part of it and to make clear what part it looks at. The present study focuses principally on the Dutch case, however the development of ethical investment is embedded in the international context. The dissertation does not try to provide a complete analysis of the international context, but rather position the Dutch case into the international context. Within the Netherlands the focus has been on some of the actors involved, financial institutions, rating organisations and corporations. Others like NGOs or government have been considered as secondary actors therefore less consideration was given. Within and aware of these limitations, the research attempts nevertheless to look at the big picture of the development to ethical investment.

The system approach develops two interesting concepts for analysing complex systems: emergence and feedback loops. The concept of feedback is intimately linked with the concepts of interdependence and mutual or circular causality. The essence of the concept is a "circle of interactions, a closed loop of action and information" (Richardson, 1991). The expression of the feedback concept varies a lot (see (Richardson, 1991)), however the underlying idea is the concept of closed loop of causal influences. If A influences B, and B in turn influences A, A and B form a loop of mutual or circular causality. Elements can be added to the loop, they are called polarities. It is the concept of polarity (positive or negative) that gives the causal loop its perceived analytic and explanatory power (for more information see (Richardson, 1991)).The research question leads to explore the interactions and inter-relations between actors. It is therefore relevant to consider the feedback loop concept because if a financial institution influences a corporation, one should also consider that the corporation in return will influence the financial institution, maybe not directly but indirectly thorough other actors such as the rating organisations. It is important to consider such loops to better understand the mechanisms at stake.

The notion of emergence is one of the most important ideas to come from complexity theory. Emergence occurs when interactions among objects at one level give rise to different types of objects at another level. A phenomenon is emergent if it requires new categories to describe it that are not required to describe the behaviour of the underlying components (the people or the organisations) (Gilbert & Conte, 1995). For example, temperature is an emergent property of the motion of atoms. An individual atom has no temperature, but a collection of atoms does. In social sciences emergence is not obvious and the relationship between individual characteristics and social phenomena is often debated (see (Gilbert & Troitzsch, 1999)). Emergence comes from individual action. Human organisations and institutions, in comparison to animal societies, have the ability to recognise, reason about and react to human institutions, that is to emergent features. Institutions result from behaviour, which take into account such emergent features. Gilbert (1995) calls such reflexive institutions 'second-order emergence' (Gilbert, 1995). Agents of a field can distinguish patterns of collective action and their actions can be affected by the existence of these patterns (Gilbert et al., 1999). Institutions may emerge as a non-intended outcome of repeated interactions. The system of institutionalisation can be described either in terms of the properties and behaviour of agents, or in terms of the system as a whole. The former mode of description focuses on the "micro" level, that is, the features of individual agents and their local environment (which they can perceive directly), while the latter focuses on the "macro" level, that is, the global patterns or regularities formed by the behaviour of the agents taken as a whole. Macro and micro levels are not always clearly distinct (they are most of the time intermingled). To rephrase institutional theory, homogenisation is an emergent 'property' of the institutionalisation process. Isomorphism mechanisms defined by DiMaggio and Powell (1983) are a way to explain homogenisation. They are the dynamics of the interacting organisations. While the strategies suggested by Oliver (1991) are the individual responses of organisations to pressure.

Field study combined with system approach provides the general line for analysing the social phenomenon studied in this dissertation. However it still does not provide specific methods. Before going into the methods section, other methodological choices need to be explained. It concerns the type of research, qualitative of quantitative and the strategy of inquiry.

4.2.2 Choosing for a qualitative research methodology

Earlier in this chapter, it was noted that institutional theory does not prescribe any specific methodology. However specific studies related to DiMaggio & Powell's mechanisms (for reviews see (Mizruchi et al., 1999)) and Olivier's framework have principally been investigated by means of quantitative methodologies with objective to investigate causal relationships (see chapter 3). Qualitative studies constitute a small group (for example (Ferguson, 1998; Olson et al., 2003)). The same applies to studies related to ethical investment. Qualitative approaches have been very scarce until now, while a dominant body of research focuses on the causal relationship of variables related to financial and ethical performances. They primarily use quantitative methodology. They show that having a good performance in social and environmental terms reinforces/improves the financial performance of businesses. Two aspects are looked at: the overall financial results of companies such as return on investment, return on equity or earning per common share, and the investment portfolio financial returns. Very often regular investment portfolios are compared with ethical investment portfolios.

Although there is a general trend for quantitative research, for the purpose of this thesis qualitative methodology seems more appropriate (see Table 15 for a comparison of quantitative and qualitative methodologies). The research questions and the theoretical orientation described in the previous chapters emphasise the importance of understanding how, in what form and in what way the field of ethical investment shaped and how the activity of ethical investment can change corporation's behaviours and practices. It stresses the necessity to look at mechanisms to provide understanding rather than predictions. The methodology required for this kind of research calls for the interpretation of a particular social context. Because quantitative methodology focuses on big scale and does not take into account the specificity of the context, it does not suit the research. A crucial characteristic of qualitative approach is its ability to investigate mechanisms, which quantitative approach does not allow. It also provides a deeper understanding of social phenomena than quantitative data. Those are crucial arguments in the case of this research (see Table 15 for a comparison between quantitative and qualitative research methodologies). The research does not intend to predict outcomes but rather to gain insights into processes. The complex nature of the system rules out the possibility of using causal methodologies because these do not take processes into account. Moreover institutional theory is concerned with processes, meaning that it deals with a series of occurrences or events rather than a set of relations among variables (Alford, in (Scott, 1987; Scott, 2001). In process theories time is of the essence. Social phenomena are history dependent. Institutional theorists talk about path dependency (Berger et al., 1967; David, 1985; Scott, 1987). They do not emerge from nothing, but are marked by a certain history and context.

Denzin and Lincoln give a generic definition of qualitative research: it is a multi-method in focus, involving an interpretative, naturalistic approach to its subject matter (Denzin & Lincoln, 1998). They mean that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them. In social science the qualitative methodology has enjoyed mixed support. In many disciplines, apart form anthropology and sociology, they have frequently been marginalised as a supplement to core quantitative methodologies (Silverman, 1993). The suspicion that qualitative methodologies are not reliable arises from the positivist tradition in social science originating in the work of Auguste Come in the 1830s, and coming to dominate social science in the mid-20th century (Mackenzie, 1997). Data produced by qualitative studies are generally not easy to verify, and difficult to observe. It often raises two problems: reliability, that is the degree of consistency with which instances are assigned to the same category by different observers or by the same observer on different occasions; and anecdotalism, meaning that brief conversations, snippets from unstructured interviews are used to provide evidence of a particular contention (Silverman, 1993). In order to limit these problems, objectivity and rigour were both crucial element of attention during data collection and data analysis. More specific limitations of specific qualitative techniques are discussed in the next section devoted to methods.

Quantitative research methodology	Qualitative research methodology
Quantification	Interpretation
Objectivity	Subjectivity
Rule-driven research procedures	Flexibility in the research procedures
Prediction of outcomes	Understanding of organisational processes
Context-free (supporting generalisation)	Grounded with local context (making generalisation problematic)
No research process effects assumed	Recognition of the impact of the research process on the research situation

Table 15 – Comparison of quantitative and qualitative research methodologies, based on (Cassell & Symon, 1994; Lee, 1999)

4.2.3 Strategy of inquiry: case studies

"A strategy of inquiry comprises a bundle of skills, assumption and practices that researchers employ as they move from their paradigm to the empirical world. Strategies of inquiry put paradigms of interpretation into motion" (Denzin et al., 1998). They lead to specific methods of collecting and analysing empirical materials which will be developed in the next section.

First strategies of inquiry vary depending on the type of research qualitative or quantitative, and then for each type there is variety of possible strategies. Qualitative research can involve case study, phenomenological and ethnomethodological techniques, grounded theory, biographical, historical, action, and clinical methods. Qualitative methodology itself does not favour any single method. Depending on the theoretical areas the research builds upon, the methodological choices that are made, and the research questions the study addresses, strategies of inquiry can be selected.

The strategy of enquiry adopted for the present research is case studies (for literature on case study in the social research context see (Hartley, 1994; Vaughan, 1992; Yin, 1994). According to Yin (1994) a case study is "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are clearly evident". As it will be later developed in this chapter, the field study consists of seven case studies consisting of one in-depth case study and six small cases. The in-depth and the small cases address different research questions.

Although the research questions of the thesis leave many possible strategies of inquiry open, several reasons support the choice for case study. Case studies can be used to explore social processes as they unfold in organisations. It can be useful where it is important to understand those social processes in their organisational and environmental contexts. It can be tailor-made to explore new processes or behaviour, and are suitable for social processes which are little understood (Hartley, 1994). Therefore case studies are well suited for investigating the mechanisms of the institutionalisation process of ethical investment. It has the property to go into the details of a limited number of cases, which is a great value to understand processes especially at the micro level. Case studies also provide practical insights, which are necessary for understanding how the activity of ethical investment evolved over time. According to Hartley "case study allows for a processual, contextual and generally longitudinal analysis of the various actions and meanings which take place and which are constructed within organisations" (Hartley, 1994). The flexibility of case study strategies provides a better insight in the practical situation within its 'natural' context.

Two other characteristics of the research reinforce the choice for case study. The research questions addresses a 'how' type of questions – How did the institutionalisation of ethical investment took place? How corporations respond to ethical investment? According to Yin (1994), the 'how' type of research questions is more adapted to case study. The second characteristic is he degree of focus on contemporary rather than historical events. Although the research requires looking at developments over time in order to understand the present state of ethical investment, it focuses on contemporary events as it analyses present influences of ethical investment on firms' behaviour. Moreover ethical investment is a rather recent phenomenon that has developed over the past two decades. So its history is very recent. This contemporary aspect allows interviewing and direct observation. An important element of the research is the examination of 'real-life' phenomena. According to Yin (1994), case study is preferred when examined contemporary events.

The explorative character of the strategy, in combination with the type of research question ('how') supports the choice of this research strategy. It enables the assessment of how ethical investment can influence firms' behaviour, and allows access to in-depth information and data related to the field. However, like every other type of inquiry the case study has its limitations and problems. Three are here under exposed.

One possible limitation is the time-span (Bakker, 2001). Case studies can be very time consuming. Initial contacts with potential case studies have to be made, access must be gained and information collected. Therefore the number of case studies are often limited. This difficulty has been avoided in this research due to a personal involvement in Triodos Bank as participant-observer during the whole period of the research and even before the research started. The observation-participation offers numerous advantages such as accessibility to information, contact with actors of the field, advantages that make it possible to overcome some of the limitations of case studies. For example the selection of the small cases is based on information available through the observation-participation. Another example concerns the access to networks of the field. It helps to get into contact with other organisations. One must however remain aware of the fact that if on one hand, the involvement made the case studies easier in terms of selection and contacts, on the other hand it also did influence choices. The choice of the small case studies has been for a large part based on information available in the database of Triodos. Therefore views and choices concerning the case studies might have been different if the involvement had been in another organisation, or if there had been no involvement at all.

There are two other important limitations related to case studies: validity and reliability. Three types of problem identified by Yin (1994) have been taken into account during the research: construct validity that is establishing correct operational measures for the concepts being studied; external validity that is establishing the domain to which a study's findings can be generalised; and reliability: demonstrating that the operations of a study – such as the data collection procedures – can be repeated with the same results.

In order to overcome the first point, *constructive validity*, several tactics suggested by Yin (1994) have been followed. Several sources of evidence have been used, interviews, documentation, and observation for each of the case study (see description later in this chapter). It is a way to diminish the limitations of each of the sources, but above all to encourage what yin calls convergent lines of inquiry. The multiple sources of evidence provide multiple measures of the same phenomenon and thereby lower the construct validity problem. It allows more accurate findings. The second tactic is the construction of a chain of evidence that is "to allow an external observer to follow the derivation of any evidence from initial research questions to ultimate case study conclusion "(Yin, 1004). In order to allow the reader to trace the steps in either direction, from conclusion back to initial research questions or from questions to conclusions, several steps were taken during the collection of data and during data analysis. The circumstances under which data have been collected such as time and place of the interview, are provided. However names of the people interviewed stay anonymous (see description later in this chapter). Citations of interviews, documents and observation relevant for the analysis are disclosed in the dissertation with clear mention of the source. The case studies followed a set of specific procedures and question built from the theoretical framework. A so-called ‘tree of questions’ was built where theoretical questions were operationalised through several steps (see later in this chapter). The tree of questions allows to clear link the reasoning from the theory to the empirical data. The third tactic used to overcome the construct validity problem is reviewing the draft case study by key informants. Only the in-depth case study, Triodos, has been reviewed by two responsible of the Triodos Bank. They checked the truthfulness and correctness the information reported. Small cases have not been reviewed. However, reports of each of the interview has been reviewed by the interviewees (see later in this chapter).

The second point, *external validity*, concerns the generalisability of case studies’ findings. The limited basis for generalising is one of the major critics of case study methodology. Yin (1994) notes that case studies are generalisable to theoretical propositions rather than populations or universes. In order to diminish this problem the following measures have been taken. Because the in-depth and the small cases address different question, they have been treated differently. Concerning the single in-depth case study (Triodos Bank), additional information from nine other ethical investment funds and interviews with other key actors of the field in the Netherlands have been collected. The nine funds do not constitute case studies themselves, however they enable to crosscheck and complete the in-depth case study. The other cases, the six small cases, have been built in a multi-case design. The advantage is that six cases are analysed and compared. It therefore brings more robust evidence than single case. However single case study was more adapted to the research questions the in-depth case addressed. It enabled to get a deep understanding and insight into the process of ethical investment, which a multi-cases design would not have allowed because of time constraint. This being said, the single and the multi-cases analysed in the research are closely bound to a national context which limits the generalisation at an international level.

As regards the last point, *reliability*, Yin (1994) proposes the use of case study protocols and the development of case study databases. It is important to make clear how the study has been conducted, which data have been gathered and how they have been interpreted. These points are developed in the following section concerning the methods.

4.3 Methods

4.3.1 Data collection

Methods are specific research techniques. Methods for collecting empirical material can be very diverse, ranging from the interview to direct observation, the analysis of artifacts, documents, and cultural records, the use of visual materials or personal experience.

Several methods may be combined together. Qualitative methodology allows quantitative techniques such as statistical correlation, as well as qualitative techniques such as observation or interviewing.

For this research, three main techniques have been combined in order to gather empirical data: observation-participation (participation in routine ethical investment work in the Netherlands), interviews (interviews with actors of the ethical investment field) and documents (reading the ethical investment literature; analysis of ethical funds and companies documents). Others techniques such as informal discussion with founders and leading opinion-formers in the field, conference attendance, or use of a small questionnaire have also been sued. All the techniques have been directed to building a fairly solid empirical picture of the process of ethical investment, the formation of the institutional field, an understanding of the pressures exerted by the institutionalisation of the sector, and the responses from actors to these pressures. Each of the techniques is presented in the paragraphs below. Table 16. Provides an overview of the strengths and weakness of each of the three main techniques.

Source	Strengths	Weaknesses
Documentation	Stable – can be reviewed repeatedly Unobtrusive – not created as a result of the case study Exact – contains exact names, references and details of an event Broad coverage – long time span, many events, and many settings	Retrievability – can be low Biased selectivity, if collection is incomplete Reporting bias – reflects (unknown) bias of author Access – may be deliberately blocked
Interviews	Targeted – focuses directly on case study topic Insightful – provides perceived causal inferences	Bias due to poorly constructed questions Response bias Inaccuracies due to poor recall Reflexivity – interviewee says what interviewer wants to hear
Participation-observation	Reality – covers events in real time Contextual – covers context of event Insightful into interpersonal behaviour and motives	Time consuming Selective – unless broad coverage Reflexivity – event may proceed differently because it is being observed Cost – hours needed by human observers Bias due to investigator’s manipulation of events

Table 16– Strengths and weaknesses of the techniques used in the research (extracted from Yin, 1994)

4.3.1.1 Participation-observation

A large share of the empirical data has been collected through participation-observation within a financial institution, namely Triodos. Becker has summarised the task associated with the participant-observer as follows: “The participant observer gathers data by participating in the daily life of the group or organisation he studies. He watches the people he is studying to see what situation they ordinarily meet and how they behave in them. He enters into conversation with some or all of the participants in these situations and discover their interpretations of the events he has observed” (quoted in (Burgess, 1984)). It is different from action research as it does not seek to change or improve a situation. “Action research aims to solve pertinent problems in a given context through a democratic inquiry where professional researchers collaborate with participants in the effort to seek and enact solutions to problems of major importance to the local people” (Greenwood & Levin, 1998). Participation-observation aims at observing and participating in situations, in specific contexts, with specific actors, in order to better understand – rather than seeking a solution to – a problem. Contrary to action research, the researcher tries to be as little influential as possible.

Type of involvement

There are four types of participation-observation, complete participant, participant-as-observer, observer-as-participant and complete observer (for more information see (Gold, 1969)). It is not always obvious to distinguish between the four as it may well happen that the position and activities of the researcher shift through time from one to another of the theoretical categories (Junker, 1960). Nevertheless the observation-participation concerned in this research falls under the category participation-as-observation.

A personal involvement from November 1998 till September 2003 took place through a placement at Triodos Research as a ‘sustainability analyst’. The choice of Triodos Research for the observation-participation is explained in a later subsection of this chapter. It started before the research began. The number of hours spent there varied over time from 128 hours to 32 hours (the last three years) per month. The work carried out at Triodos Research was similar to the rest of the analysts’ tasks within the limits of the part-time contract. It consisted in screening companies according to social and environmental criteria, writing company profiles, sector studies and issue reports – e.g. report on specific issues such as unsustainable forestry, sustainable mining, or weapon industry.

Why participation-observation?

Ethical investment is a new field in formation and therefore subjects to numerous changes. The best way to really capture and understand those changes, which are sometimes small or not publicly available and therefore not perceptible by external observant, is participation-observation. It offers the opportunity to be part of the field among and as part of the actors involved, to experience it in its real life rather than reported and translated by someone else. It thereby avoids potential distortions of the information

Observation-participation facilitates the collection of data on social interaction in situations as they occur rather than in artificial situations. It makes possible to encapsulate the subjective elements of social life. Yin argues that it provides 'unusual opportunities for collecting case study data…[as it gives you the ability] to gain access to events or groups that are otherwise inaccessible to scientific investigation' (Yin, 1994). For example this position made it possible to attend various meetings of the department: process meetings – related to the daily work such as planning, clients, conferences, contacts, etc; content meetings –related to discussions around specific issues such as human rights, hazardous substances; annual strategic meetings of the department taking place once to twice a year –reviewing the activities of the department over the past twelve or six months, and its future activities and strategic direction. Observation-participation provides first-hand knowledge (Lee, 1999) which is rich in contextualised detail and vivid to the observer. Participation-observation provides very rich information and a deep knowledge of the field. Specific information such as how the activity functions, why certain actors take specific strategic choices, and how actors interact with each other would not have been available otherwise. Moreover, it allows following on a regular basis the development and changes happening within the field, which is a crucial aspect for this research, and thereby offers the opportunity to capture and experience emergent phenomenon of ethical investment in the Netherlands.

An important added value of observation-participation is its potential for creativity. Its flexibility makes it possible to gain insights into new realities or new ways of looking at old realities (Denzin et al., 1998). It is an interesting characteristic for developing theory.

Problems of participation-observation

Participation-observation does not only have advantages but also presents some specific problems (see (Schwarts & Schwartz, 1955)). The participant-as-observer role involves situations where the researcher participates as well as observes by developing relationships with informants. Unlike complete participation, the researcher makes known that he/she is doing an investigation. This role provides the researcher with the freedom to go wherever the action is that is relevant to the investigation (Burgess, 1984). This role raises also the question of the extent to which a researcher participates. The rather long involvement within Triodos Research and the involvement before starting the research helped tremendously in gaining acceptance for the role of observer and participant within the department. It enabled a complete integration in the department and prevented any resistance from the personnel of the department or even from the whole bank.

A second aspect that is of importance as participant-observant is the role within the field studied. According to Burgess (1984) the variables to consider are the researcher's experience, the age and the sex of the researcher, and the ethnicity. The researcher's own experience has an influence upon the research findings. In the case of this thesis, the experience variable was covered through involvement within the organisation, Triodos Research, before starting the present research. From November 1998 to September 1999, I worked first as a trainee and then as an employee at Triodos Research. During this period no research was involved. It provided some valuable experience within the field before engaging in the research. The other variables are not of specific relevance for this research.

Burgess (1984) raises third point related to the relationships of the participant-observer with the informants. According to him, whilst doing participant observation it is essential for participant-observers constantly to monitor the differences between themselves and their informants. An important dimension in developing rapport with informants involves learning their language. Thanks to the immersion within the field before starting the research and the long involvement (five years in total) this problem did not arise. Immersion made it possible to gain a very good knowledge of the language used in the field. However the problem of influence of the researcher on the researched remained. Participant observers are involved in face-to-face relationships with those who are researched, and the observers are part of the context that is being observed. This results in the possibility that researchers may modify and influence the research context as well as be influenced by it. It concerns the researcher's participation and relationships with informants and their impact upon the data that are gathered. Entirely avoiding researcher influence on subjects is an idealistic improbability (Denzin et al., 1998), yet there are ways to ensure that such an effect is diminished. The naturalness of the observer, coupled with its non-direction, makes it the least noticeably intrusive of all research techniques (Denzin et al., 1998). Every researcher should be aware that what he or she sees depends largely on his/her particular position in a network of relationships. It is therefore important to make clear the social position of the observer and observed and the relationship between them (Vidich, 1969). In order to minimise influence on/in Triodos, it was clearly agreed to have limited responsibility within the organisation.

Yin (1994) notes that the major problems have to do with the potential biases produced. Beside the problem already mentioned the participant encounter the risk of following a commonly known phenomenon and becomes supporter of the group or organisation being studied. In order to prevent such problem the involvement in Triodos was reduced to 32 hours per month. A last problem is that the participant role may require too much attention relative to the observer role. These problems have been prevented by making very clear the personal involvement within Triodos Research and by agreeing with the organisation to devote enough time for taking notes or clarifying certain points.

4.3.1.2 Interviews

The second important technique use for the present research is interviewing. In total 33 interviews were conducted (see Annex 4). Table 17 recapitulates the number and type of interviews per group of actor. The interview is a "conversation, the art of asking questions and listening" (Denzin et al., 1998). It is not a neutral tool, for the interviewer creates the reality of the interview situation. In this situation answers are given. Thus the interview produces situated understandings grounded in specific interactional episodes. It was used both in the single case study and the multi-cases.

Interview with	Number	Characteristics
Corporation managers	10	Individual interviews except one with two interviewees Focused interviews following guidelines Semi-structured interview, with open questions Recorded
Ethical fund managers	10	Individual interviews Focused interviews following guidelines Semi-structured interview, with open questions Recorded
Triodos Bank employees	9	2 group discussions: focused interviews following guidelines; semi-structured interview, with open questions; recorded 7 individual interviews: open-ended; unstructured, with open questions; not recorded
Other actors of the field	4	Individual interviews Open-ended interviews following guidelines Semi-structured interview, with open questions One recorded and three not recorded

Table 17 – Interviews conducted for the purpose of the research

Type of interview

Interviewing has a wide variety of forms and a multiplicity of uses. Three main categories serve to characterise the type of interview:

- open-ended nature, focused, and formal survey (Yin, 1994)
- structured, unstructured and semi-structured interviews (Junker, 1960),
- and individual and group interviews (Junker, 1960).

In an open-ended interview, respondents are asked about the facts of a matter, as well as their opinions about events. In some situations, respondents may be asked about their own insights into certain occurrences. In a focused interview, the respondent is interviewed for a short period of time –an hour for example. It may remain open-ended, but it is more likely that the interviewer follows a set of questions derived from the case study protocol (semi-structured type). And formal survey is a more structured type of interviews (structured questions).

7 open-ended and 26 focused types of interviews were carried out in the present research among which three were group discussions and the rest individual interviews. All focused interviews were semi-structured, with open questions and recorded, while open-ended interviews were unstructured, with open questions and not recorded. This last type of interview, *open-ended*, was used for interviews within Triodos Bank and for some interviews with specific actors in the field. The purpose was to get complementary information that was suggested during the participation-observation but not possible to get or to obtain details of specific situations. Most of the time they were informal interviews.

Tow *group discussions* were carried out within Triodos Bank with selected groups of people. Group discussion means that several individuals are simultaneously questioned in formal or informal settings (Denzin et al., 1998). The groups of discussion were composed of Sustainability Analysts of Triodos Research met twice. There are indeed only two groups concerned one related to the management of the MeerWaarde fund and one to Triodos Research. It was decided to keep them separated because these two groups have a different position and role in the field of ethical investment and therefore they have different inside into the activity. The group interview has the advantages of being inexpensive, data rich, flexible, stimulating to respondents, recall aiding, and cumulative and elaborative, over and above individual responses (Denzin et al., 1998). This type of interview is not, however, without its problems. The emerging group culture may interfere with individual expression, the group may be dominated by one person, and the group format makes it difficult to research sensitive topics. In order to limit this problem as much as possible, each of the participants were one by one offered the floor. Moreover the chairperson, myself, tried to make sure that everyone had some time to express her/himself.

Two main questions were addressed during the group discussions (with both groups): one was related to the influence of ethical investment on corporations and the second was related to the relationships of the person from the groups to the other actors of the field. The aim of those discussions were to get the impression and believes of the two group regarding the activity of ethical investment and to assess the actors with whom they have contact as well as the type of contacts they have with them. For the MeerWaarde Fund group, the emphasis was especially on the clients of the fund: who they are, what do they expect, what do they ask, how often do they contact the bank, etc. Each of the participants received in advance a list of factors potentially exerting pressures on companies. The list was only there to provide a support for the discussion. The same list was sent to the two groups. Once again the aim of these discussion was to get information that was not available from the observation-participation and to discuss deeper some specific aspects of the activity which discussion does not take place in the daily work. The advantage of group discussion is that it can provide another level of data gathering or a perspective on the research problem not available through individual interviews (Blumer, 1969; Denzin et al., 1998).

The *interviews with corporations and ethical fund managers* were built upon the 'tree of questions' based on the theoretical model from which a guideline was drawn (see the tree of questions later in this chapter). The purpose of the guideline was not to ask fixed questions but rather to make sure that the person interviewed went through all the issues needed for the report. The interviews consisted of open questions. The interviews aimed at collecting impressions, perceptions, discourses of the interviewees. The choice regarding the people interviewed is explained later in the case study sub-section.

Out of 33 interviews, 24 were tape-recorded, with the accord of the respondents, and then re-transcribed in a computer document. The advantage of recording is that it provides a more accurate interpretation. Interviews' transcriptions were sent to each of the interviewee for a check. Some corrections were made concerning names spelling, dates and figures. The names of people interviewed as well as the organisation they represent are being kept anonymous for confidentiality reasons. All interviews have been held under this condition.

4.3.1.3 Documentation

Documentation is very relevant to case studies. It can take many forms. According to Yin (1994) documents must be carefully used and should not be accepted as literal recordings of events that have taken place. For the purpose of the present research, documents have been used for several purposes. They provide valuable information on the organisations, are also used to corroborate and increase evidence from other sources, and to provide other specific details.

When analysing and reviewing documents, it is important to understand that they have been written for some specific purpose and some specific audience. The strength of documents is that they enable the researcher to examine texts written in the participant's own words, and often with substantial care. But the weakness is the potential difficulty in obtaining access to documents, incompleteness of some texts, and difficulty in authenticating documents (Denzin et al., 1998). Thanks to the participation in Triodos this weakness was minimised.

Two types of documents may be distinguished, primary and secondary documents. Primary sources are materials that are gathered first hand and have a direct relationship with the people, situations or events that are studied. Secondary sources are materials that have already been published. Both types have been used for the purpose of this research project. Table 18 presents all the documents used.

Source	**Type of documents**
Corporations	Annual reports Environmental, social, sustainability reports Specific reports and brochures such as business principles, etc Corporation website Triodos Research profile Newspaper cuttings
Financial institutions	Annual reports Environmental, social, sustainability reports Specific reports and brochures such as the ethical fund brochure Financial institution website Newspaper cuttings
Triodos Bank and Triodos Research	Triodos Banks Annual reports Specific reports: MeerWaarde Fonds annual report Brochures: Triodos Bank, Triodos Research, MeerWaarde Fonds Minutes of all the meetings held at Triodos Research Internal documents Website Newspaper cuttings
Other	Newspaper cuttings Articles Websites of diverse organisations Brochures of ethical funds and banks Brochures rating organisations SiRi Group: minutes of meetings, internal documents, brochure of partners

Table 18 – Documents used for the purpose of the research

4.3.1.4 Other methods

Two other methods have been used to collect data. During the whole research project, conferences focused on ethical investment were regularly attended, especially The Triple Bottom Line Conference on Ethical Investment during which there was an active participation as reporter. This international conference was first held in 1999. Since then it is organised every year and gathers all major actors of the ethical investment field (see chapter 6 for an analysis of the attendees). This conference was of special interest because of its importance in the field and its popular attendance especially by Dutch actors. Practical reasons also influenced this choice as the conference has always taken place in The Netherlands except for the last year (Belgium). Conferences are important sources of information. They provide valuable information on new developments in the field, issues at stake, and actors involved. It was also an important way to meet and discuss with actors in an informal way and thereby get a better feeling of what is happening within the field not only in the Netherlands but also internationally.

Secondly, complementary information concerning rating organisations were collected through a small questionnaire sent o 10 SiRi partners. The purpose of the questionnaire was to get complementary information concerning the relationships and connections between rating organisations and the other actors in the field. Partners of SiRi Group were chosen because Triodos Research is also a member of the group. The questionnaire was sent by e-mail in December 2002 to the contact person of each of the SiRi partners. It consisted of four questions related to: 1) (share)owners, 2) advisory committee, 3) networks, and 4) memberships. Responses were collected by e-mail, with a response rate of 100%.

4.3.2 Case studies

Case studies can have different designs and purposes. They can involve either single or multiple cases, and numerous levels of analysis (Yin, 1994). Moreover, case studies can employ an embedded design, that is, multiple of analysis within a single case study or a holistic design, that is single unit of analysis (Yin, 1994). The case study's strength is its ability to deal with a full variety of evidence – documents, artifacts, interviews, and observations. It typically combines several types of data collection. The evidence may be qualitative (e.g. words), quantitative (e.g. numbers), or both. Finally, case studies can be used to reach various objectives: to provide description, test theory, or generate theory.

In this project, the field study consists of a number of case studies. The case studies can be classified into two categories: one in-depth case and six smaller cases. The objectives are manifold, and include collecting information about:

- Talk and discourses: what do actors say and believe;
- Actors: who are they, what are the relationships and flows between groups of actors;
- Practices: what is the process of ethical investment, what do actors do and what changed during the creation and development of the field;
- Broader authority and rules: the environment and context of ethical investment.

4.3.2.1 The Triodos case: a single, in-depth case study

Triodos case

The Triodos case is a single in-depth case study, which can be divided into three sub-cases, Triodos bank, Triodos fund, and Triodos research (see description chapter 2). These three subcases belong to the same case because they are very closely related. Although they are part of two different organisations, Triodos MeerWaarde fund is managed by Triodos Bank NV and Triodos Research by Triodos Holding NV, they have very strong and direct ties, and together they form a whole which is of particular interest in this study. Triodos Bank and Triodos Research are two different actors in the field of ethical investment as one refers to the financial institution group and the other to the rating organisations.

Triodos case study is an exploration of the field of ethical investment. It addresses the first research question, that is the formation of the ethical investment field. It aims at better understanding the process of ethical investment activity, exploring the connections and relationships between actors in the field, evaluating the institutionalisation process of the sector and detecting the institutional pressures exerted by the field on corporations. The unit of analysis, that is the phenomenon under study (Lee, 1999), is (a) the relationships between organisations in the field, and (b) the mechanisms of the institutionalisation process.

Triodos was chosen for case study for several reasons. Triodos case offers the opportunity not only to study a bank which manages an ethical investment fund but also a rating organisation. It is one of the pioneer Dutch organisations in ethical investment. It therefore holds knowledge about the history of ethical investment in the Netherlands, aspect which is crucial for investigating the institutionalisation process. Triodos Research is the only one rating organisation in the Netherlands. And, as it will be developed later in the dissertation, the rating organisation played a central role in shaping the field. A last reason, and not the least important, is because the involvement within Triodos Research as sustainability analyst started before the PhD project began.

Crosscheck: analysis of other ethical investment funds

In order to guarantee the validity and reliability of the findings, data from other sources were also collected (see Table 19 for an overview of the sources of information used for the in-depth case study). Data from other financial institutions were gathered. Ten Dutch financial institutions were investigated. Documentation analysis and interviews were conducted. All Dutch banks managing an ethical investment fund at the date of September 2001 were approached and ten interviews were conducted. The names of financial institutions and people interviewed have to remain anonymous. Financial institutions are numbered from F1 to F9, and people interviewed are recorded from P1 to P10. The length of the interviews varied between forty-five minutes to two hours per interview.

Among the people interviewed, seven were responsible for ethical investment funds (asset managers), two were analysts (screening of companies for ethical funds), and one was Manager of Corporate governance & sustainable investment. The interviews were open discussions following a guideline based on the ‘tree of questions’. The interviewees received in advance of the interview an e-mail containing the main topics that would be discussed. All interviews, except one due to a technical problem, were recorded. The interview transcript was sent to the interviewees who sent back their comments; these were taken into account during the analysis. Other interviews, some of them unstructured and others semi-structured, with key players of the Dutch context, especially Piet Sprengers from VBDO as well as international key players were carried out, along with participation to events such as conferences meetings on ethical investment (see Table 17).

Concerning rating organisations, complementary information was collected via a small questionnaire. SiRi partners were asked about their connections with other actors. The responses of each partner are reported from RO1 to RO11.

Data are from three different sources, namely observation-participation, documents, and interviews, which requires four techniques to collect information: first direct observation, second informant interviewing, third documents analysis, and fourth and last direct participation. The multi source of information enhances the reliability of the data.

Triodos Bank	**Other Dutch Financial Institutions**
- Participation in Triodos Research on a regular basis during four years - Attendance to Triodos Research meetings - Attendance to Triodos Bank shareholder meetings - Group interviews - Individual interviews with Triodos employees - Access to all Triodos Research documents - Publicly available documents - Informal discussions with diverse Triodos staff	- Publicly available documents - Interviews with fund managers and/or analysts (P1 to P10) **Other Rating Organisations** - Publicly available documents - Questionnaires to SiRi partners (RO1 to RO11)

Table 19 – In-depth case study: sources of information

4.3.2.2 Corporation cases: multiple case design

The multi-case studies consist of six small cases. They are small in the sense that the time-span for collecting information was shorter compared to the in-depth Triodos case study. Therefore less information and knowledge was accumulated for each case. The six cases are organisations within the corporations' group. For confidentiality reasons, names of companies and people interviewed within each firm have to remain anonymous.

The multiple case design addresses the second research question, that is corporation responses to ethical investment. The aim is to explore what corporations say about ethical investment, how do they deal with this increasing phenomenon, how do they respond and why do they respond in a certain way. Six cases on the one hand do not allow generalising the findings to all corporations because the sampling is too small and not representative, and on the other do not offer the data quality of an in-depth case study. However it was important to analyse several companies in order to compare corporation responses because one of the questions is: do they have all a similar response? The multiple case design offers the advantage of the replication logic (Yin, 1994). The same advantage applies for investigating the influence of corporations on the field of ethical investment.

Study population	Companies
Sample frame	Multi-stage sample
Observation unit	CEO, Issue manager, Environmental manager, the person who answered the questionnaire (SAM or/and EIRIS)
Variable	Sector of activity; listed in sustainable index; listed on the FTSE 300 and/or Dow Jones STOXX 50; Advice sent by Triodos Research; Triodos sector study; date of screening
Constant	Listed on the stock market; Dutch companies; available in Triodos Research database

Table 20 – Company sampling

The sampling procedure to select companies for the case studies is described in Annex 3. Table 20 provides the main characteristics of the sampling procedure. The primary sample consisted of 631 stock-listed companies which was reduced to six companies in the final sampling. Table 22 gives a cross table of the final sample of companies. The sample survey is the set of people that has a chance to be selected, given the sampling approach that is chosen. (Fowler, 1993). Three main criteria were decisive in the choice of companies.

1. First of all for the sake of consistency and for practical reasons companies had to be *Dutch* companies: information was more easily available, there was more flexibility for the interviews, the SiRi partner responsible for doing the screening of the

company was Triodos, and it was consistent with the research focus on the Dutch context.

2. Secondly they had to be from different sectors, and the sectors must have different characteristics. The characteristics are described through what is called s*ector sensitivity.* It was assumed that sectors are not exposed equally to social, environmental and political issues and do not follow the same legitimacy processes. Sectors in direct contact with consumers are more exposed/sensitive to pressures exerted by sustainable investment. That is the case, for example, of the food industry, especially with the Genetic Modified Organisms issue. Sectors that are considered major polluters or deal with controversial activities are more sensitive sectors. This is the case for example with the oil & gas and chemical sectors which have both an history of oil spill pollutant releases. Moreover, the observation and experience at Triodos Research showed that some firms were more likely than others to change towards sustainability and to engage in and with the research department. On the other hand some firms had no interest and willingness in improving their sustainability performance and to communicate with Triodos Research. For these reasons, the sectors have been divided into two categories: 'sensitive' and 'less sensitive'. Sensitive sectors are sectors that because of a certain history or specific perceived risks are more closely watched by society and the sustainable investment community. At the end of the sampling procedure, three sectors of activity were represented: Food, Oil & Gas combined with Chemistry, and Media.

3. Thirdly the *sustainable indices* had to be taken into account. Sustainable indices such as FTSE4Godd and Dow Jones Sustainability are the most visible outcomes of ethical screening. They also have been a major event in the development of ethical investment. Therefore they may play an important role in the legitimacy process. It was decided that 50% of the companies from the sample had to be listed in one of the indices, and the other 50% should not be listed.

For each company data were gathered from the following sources:

- publicly available information from the company (reports, brochures, website),
- interview(s) and,
- SiRi profile. SiRi profiles are reports on the social and environmental performances of companies established by one of the members of SiRi. SiRi partners write profiles of companies from their own country.

In total 10 interviews were conducted within the six companies covered by the case studies. Corporations are numbered from C1 to C6. The persons targeted for the interviews were the following: Chief Executive Officers, corporate communication, investor relations or issue manager (see Table 21). These functions were chosen because information, data can be organised into matrices, graphs, networks and charts. It allows organising the information in a accessible and compact form.

- Conclusion drawing

This part of the analysis consists to give a meaning to the information collected. It means noting regularities, patterns, explanations, etc.

In this research, interviews from the financial institutions and corporations have been coded. In order to code the interviews, the computer program Atlas has been used. Codes have been derived from the theoretical framework. They are related to setting/context, definition of the situation, ways of thinking, process, activities, events, strategies and relationships. Information gathered during the observation-participation, that is memos, minutes, notes, discussions, has been categorised by themes in a chronological order such as stakeholders, methodology, criteria, publications, conference, workshop/training, other, employees, Triodos MeerWaarde fund, and remark personnel. And information collected from and about companies, such as annual reports, newspaper clips, have been summarised so as each corporation had its own file with summariser information.

In order to display the data format have been used such as matrix, figures, and chronological lines. In the whole thesis there is a mix of single-case and multi-case data display. For example, in order to study the relationships between actors of the field of ethical investment networks have been drawn. Another example is the time line used to show the significant events in the development of Triodos Research. When possible and relevant, the information has been quantified. It is for example the case in the network analysis. A binary (yes = 1, no = 0) coding, or a ranking coding (never=0, sometimes=1, often=2) has been used in order to draw graphs. Because it would be impossible to list in this chapter all format used, they are presented throughout the thesis when necessary.

4.4 Conclusion

This chapter on methodological considerations presented the choices and considerations involved in developing the present study. Qualitative methodology has been selected as the most appropriate way to investigate mechanisms. It enables a better understanding of organisational processes regarding institutionalisation and legitimacy. It does have some limitations, especially concerning the subjectivity issue, and although subjectivity cannot be completely avoided a number of measures have been taken in order to keep it down as much as possible. Several actors in the field were interviewed, which provided a broad view of the sector. Interviews were typed and sent to the interviewees for verification. The Triodos case was proofread by two Triodos Bank managers. Because part of the data was based on participation-observation, a particular effort was made in recording observations, and keeping track of the information collected.

Concerning the methods, case studies were chosen. They offer a suitable research strategy as they allow the study of a contemporary phenomenon within its local context, while considering a broad range of factors. They were collected during a field study consisting of several case studies from the same field. Observation–participation is one of the central sources of information of the research. It enables an in-depth knowledge of the field, actors, activities and relationships. The total immersion during a five-year period within Triodos Research had a significant impact on the perception of the field. In order to limit this problem, nine other Dutch financial institutions were investigated.

Table 23 provides a summary of the sources and techniques used in the thesis. The multiplicity of the sources and techniques ensures a certain reliability and validity of the information.

After having presented the theoretical perspective in chapter 3 and methodological considerations in chapter 4, the next three chapters of the research will investigate the empirical data. Each of the chapters will focus on different level of analysis: macro level (chapter 5), meso level (chapter 6) and micro level (chapter 7).

<table>
<tr><th>Empirical data</th><th>Methods of collection</th></tr>
<tr><td>1 in-depth case study: Triodos case</td><td rowspan="2">Observation-participation
Documentary
Interviews
Other: Group discussions, questionnaire</td></tr>
<tr><td>6 small case studies: corporations</td></tr>
</table>

Table 23 – Empirical data: summary table

Chapter 5 – Institutional and international contexts

5.1 Introduction

The deep roots of ethical investment go back to a very long time ago; it was mainly a Church-related activity. The modern roots are more often related to political-social forms of action often associated with activists. Recently ethical investment changed form again and has become a widespread activity among mainstream financial institutions.

This first section presents the history of ethical investment with a special focus on the US and UK because the roots of ethical investment are found in the US and ethical investment in Europe started in the UK. Both countries have had an important impact on the way ethical investment developed. The second section introduces the activity of ethical investing as a financial activity and explores the integration of this activity within the financial sector. The last section deals with the concepts of ethics, corporate social responsibility and sustainable development.

The chapter provides a broad picture from the foundation of the movement to its worldwide development over time, and the elements that shaped ethical investment. It aims at providing the international and institutional contexts in which ethical investment developed.

5.2 Historical context

This section explores several aspects of ethical investment: its origins, various meanings, volume and size, and an overview of the screening and criteria of ethical investment. Data cover ethical investment worldwide with a special focus on the US and UK because these two countries played an important role in the development and diffusion of ethical investment.

5.2.1 Roots of ethical investment

According to Amy Domini, the origins of ethical investing date back many hundreds of years (Domini, 2001). In early biblical times, Jewish laws laid down many directives on how to invest ethically. In the mid-1700s, the founder of Methodism, John Wesley, emphasised the fact that the use of money was the second most important subject of New Testament teachings. As Quakers settled North America, they refused to invest in weapons and slavery. For hundreds of years, many religious investors whose traditions embrace peace and non-violence have actively avoided investing in companies that profit from products designed to kill fellow human beings. Many avoid the "sin" stocks -- those companies involved in the alcohol, tobacco and gaming industries. Ethical investment was principally a movement led by the church.

The modern roots of ethical investment, which can be dated back to the 1920s, are strongly anchored in the United States. The first US mutual fund to meet the needs of socially conscious groups was launched in 1928 and was called US Pioneer Fund. In the 1960s/1970s ethical investment changed. Church investors ran investment portfolios using certain ethical criteria and constraints for many years. However, such activity attracted little attention and does not seem to have been described by any generic term.

New issues and new actors joined the ethical investment movement: the Vietnam War and apartheid in South Africa fuelled the ethical investment movement especially in the US. A number of funds refused to support such a regime. Concerned U.S. investors joined international efforts to put economic pressure on South Africa to end apartheid. A growing number of investors throughout the 1970s and 1980s used both screening and shareholder advocacy to press for change in South Africa. Both individual and institutional investors refused to invest in companies who did business in South Africa, and sponsored shareholder resolutions asking companies to withdraw from South Africa. While the issue was on the agenda of many trade union and church funds throughout the 1970s, it was in the 1980s that the divestment movement took off. States such as Massachusetts and New York instructed their pension fund trustees to take account of the situation in South Africa. Ethical investment was used as a tool to lobby against industrial activities seen as non-ethical. Investors wanted to express their values by refusing to invest in certain companies that were involved, for example, in alcohol or weapon production.

Ethical investment started to spread in an impassioned political climate and was transformed from a clerical activity (attempts to use ethical principles in the construction of investment portfolios) into a public awareness of ethical investment (the self-conscious phenomena ethical investment) (Sparkes, 2001). 1960s/1970s have been crucial decades in the development of ethical investment during which ethical investing became a conscious statement. A series of social and environmental movements, from civil rights and women's rights to the anti-war and environmental movements, served to raise awareness around issues of social responsibility. These concerns also broadened to include management and labour issues, and anti-nuclear sentiment.

The early stage of ethical investment, up to the 1970s, was dominated by a kind of 'avoidance investing'. Churches, anti-war or other groups used ethical investment to make a statement – either political or moral.

5.2.2 What is ethical investment?

Ethical investment is a concept that has become increasingly well established in public consciousness throughout the 1990s. However there is considerable discussion as to what ethical investment actually is. A number of authors have addressed the question, academics (Anderson et al., 1996; Bruyn, 1987; Cooper & Schlegelmilch, 1993; De George, 1990; Mackenzie, 1997; Rockness & Williams, 1988; Sparkes, 2001; Sternberg, 1994; Ward, 1986) as well as practitioners (Alperson, 1991; Brill & Reder, 1992; Demonty, 1999; Domini & Kinder, 1984; Harrington, 1991; Judd, 1991; Kinder, 1993; Kinder, Lydenberg, & Domini, 1994; Lang, 1996; Lowry, 1991; Meehan, 1997; Smith, 1990; Tennant, 1994). Few authors among them Anderson et al (1996), De George (1990), Irvine (1987), and Sorell & Hendry (1994) have focused on the philosophical aspect of ethical investment (see section 5.4.1).

One first source of confusion is the name used to designate investment funds with social and environmental screens. In the literature one may find a number of different names such as 'ethical investment', 'socially responsible investment' (SRI), 'sustainable investment', 'conscious investment, 'mission-based investment, 'social investing', or 'socially aware investing'. There are however three main names that are commonly used and recognised: 'ethical investment', 'socially responsible investment' (SRI), and 'sustainable investment'. Although these names may be used as synonyms, some authors have pointed out some differences between them. Sparkes (2001, 1995) considers 'ethical investment' as "the older phrase which is slowly being replaced in general use by 'socially responsible investment' (Sparkes, 1995, 2001). EIRIS, the UK rating organisation, describes 'SRI' as a softer version of 'ethical investment' (SIF, 2002). According to Kinder *et al*. (1994) names are country dependent: 'ethical investment' is most commonly used in the UK and Canada, whereas 'SRI' is more often used in the US (Kinder et al., 1994). Authors note that in the UK and Canada 'socially' connotes to 'socialist' and leads to infer a narrow, left-wing agenda (Kinder et al., 1994). In the rest of Europe one can find all three names, although there is a tendency to use either SRI of sustainable investment. The different authors point at several elements that do define the name: time, space and politics. It seems that 1) the name changed over time, 2) there are differences between countries, and 3) some names have a specific political colour.

Another element of confusion is the definition of ethical investment numerous authors criticise the lack of consensus on the meaning of the term ethical investment and the fact that little academic research has focused on this topic (Cooper et al., 1993; Sparkes, 2001). This entails some divergences both at a conceptual and practical level.

Ward (1986) who wrote one of the first UK books on ethical investment made little attempt to analyse the term, and considered ethical investment in terms of action: "definitions… of exactly what is socially responsible and what is not will vary. Some people feel strongly about tobacco, some about armaments, and some about creating employment in the inner city. The common factor is that they all think that they should not simply hand over their money and sit back"((Ward, 1986) cited in (Sparkes, 2001)). In the same period, Domini and Kinder (1984) also emphasised action as opposed to analysis: "ethical investing takes this feeling that our finances are a reflection of ourselves and carries it to a logical conclusion …(there are) three approaches to ethical investing: avoidance, the positive and the activist approach" (Domini et al., 1984). And in 1990, Craig Smith described ethical investment as a form of boycott 'analogous to ethical purchase: "ethical investors can operate by selling off investments or keeping them and using them to press for changes in the companies concerned" (Smith, 1990). All of them suggest that ethical investment involves an active participation from the investor side.

A number of authors like Cooper and Schlegelmilch (1993) have focused their attention on the marketing-driven nature of retail ethical investment funds. Button (1988) defines ethical investment as follow: "Putting your money into investments which will yield a financial return for you, but which do not support areas of business interest that you disapprove of, such as arms, tobacco, alcohol, apartheid, violation of human rights" (cited in (Cooper et al., 1993)).

In 1994, Cowton gave a more focused definition. According to him ethical investment may be defined as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (stocks) (Cowton, 1994). He contrasted this with the standard description of investment decisions which concentrate solely on financial return. He argued that ethical investors care not only about the size of their prospective financial return and the risk attached to it, but also its source – the nature of the company's goods or services, the location of its business or the manner in which it conducts its affairs. Cowton continued this discussion in a later article (Cowton, 1998). Along the same line as Cowton, Wall (1994) considered ethical investment as buying (selling) of publicly traded common stocks on the basis of some social and environmental criteria (Wall, 1995). This rational approach of ethical investment, focusing on the relationship between financial and social/environmental performance has been the most common perspective since the mid-1990s. Sparkes (1995) adopts the same perspective: “It is probably time to clarify what is normally meant by ‘ethical investment’: It does not mean a moral campaign to clean up the Stock Exchange, or raise the standards of those who work in the financial field. Ethical investment is straightforward, and simply means an investment philosophy that combines ethical or environmental goals with financial ones” (Sparkes, 1995). In his 2001 paper Sparkes describes it as following: “the key distinguishing feature of socially responsible investment lies in its combination of social and environmental goals with the financial objective of achieving a return on invested capital approaching that of the market” (Sparkes, 2001).

The above definitions do not address the nature of the term ‘ethical’ and are devoid of emotive aspects. They are rather vague and lack analytical precision. Ward identifies some areas of concern such as tobacco or armaments. Domini and Kinder emphasise procedures: avoiding, positive encouragement and activism. Craig Smith takes a different perspective, seeing ethical investment as a subclass of ethical purchase behaviour, with a methodology based upon selling shares or activism. All the definitions refer to the action of ethical investment rather than the philosophy which underlies it. One may wonder in what way ethical investment infringes the classical perspective of investing, as in these definitions the economic aspect is still the dominant objective.

Bruyn (Bruyn, 1987) defines ethical investment as the development of “social screens to monitor industrial practices from a social-ethical perspective, setting standards for allocating capital for the common good” (Bruyn, 1987). His definition does not only describes ethical investment as “the allocation of capital to organisations in the context of society with the purpose of making economic returns” but also as “the allocation of capital to advance the social and economic well-being of people”. Ethical investment involves a conscious and selective way to make investment decisions based on ethical factors. It differs from regular investment because the purpose is to advance the social well-being of society. Bruyn points out that the allocation of capital affects the power and values of people in society in various ways. The Britannica World Language Dictionary defines investment in economic terms as “the placing...of money...to gain a profit” but does not stop there. The dictionary also notes that investment means “to give power, authority or rank to”. Bruyn suggests that capital investment is also a social activity and can affect many aspects of the corporate system and even society. It confers power to people and therefore can be a tool to stimulate change.

5.2.3 Development of ethical investment funds in the US and UK

As we saw in the previous section, the roots of ethical investment are situated in the US. In Europe, the first country to launch an ethical investment fund was the UK. This section presents the very different driving forces that stimulated ethical investment in these two countries. In the US they came from citizen pressure groups while in the UK the most important 'pressure group' was the government.

5.2.3.1 US: Citizen groups pressures

Vogel's book "Lobbying the Corporation" provides a general view of the US context in which ethical investment grew (Vogel, 1978). In the mid-seventies businesses faced increasing pressures from citizens. A growing number of groups and individuals started to criticise corporate conduct. There was a movement of 'lobbying' corporations. In order to lobby corporations, people like Saul Alinsky or Ralph Nader developed the 'proxy tactic', that is buying company shares and using annual meetings to protest against company social policies (for example the Kodak or the General Motor cases).

By the mid-seventies the dimension of corporate conduct had expanded significantly beyond participation in the Vietnam war. It had come to include the treatment of women and minorities, investment in the Third World, as well as environmental considerations. An important group that stimulated this change was the Council on Economic Priorities (CEP). The CEP was created in 1969. It attempted to politicise the investor's role and make it a vehicle for non-governmental public pressures on business. This citizen group has affected companies via the press more than via the investment community. It published a large number of articles and reports on corporation conduct which played an important role in giving a sound commercial basis to corporate social responsibility.

By the mid-1970s four ethical mutual funds were established and widely reported in the financial press. Vogel's book clearly show that ethical investment in US was motivated by a strong citizen concern regarding corporation conduct. It was a protest movement and political expression against abuses or/and misconduct. Ethical investment was a way to lobby corporation.

Organisations such as the CEP or IRRC were created. They aimed at either providing information on corporate socially-related issues or helping and encourage shareholder activism. CEP was launched in 1969 followed in 1972 by the Investor Responsibility Research Center (IRRC). Its core business is to provide assistance with the proxy voting process with a focus on governance and social responsibility issues. The Interfaith Center on Corporate Responsibility (ICCR) was created one year later, in 1973. ICCR is an international coalition of 275 faith-based institutional investors including denominations, religious communities, pension funds, healthcare corporations, foundations and dioceses.

An important actor in the field of ethical investment in the US is the Social Investment Forum. It is a national non-profit membership association dedicated to promoting the concept, practice and growth of socially responsible investing, and was launched in the early 1980s. It is an important pool of information on ethical investment and stimulates (quantitative) research through the annual Moskowitz Prize which rewards research papers that bring 1) practical significance to practitioners of socially responsible investing; 2) appropriateness and rigor of quantitative methods; 3) novelty of results.

KLD started to provide research products and services to the financial services market in 1988. It is the leading rating organisation in the US but also provides information and services worldwide. It created an online research database containing social records on more than 3,000 US and international companies. It also launched the Domini 4000 Social Index in 1990. In January 2001, KLD launched the Broad Market SocialSM Index (KLD BMS Index) and the Large Cap SocialSM Index (KLD LCS Index), which tracks the performance of the largest socially screened US equities, based on market capitalisation.

Today a large number of organisations are related to ethical investment. The table below (Table 24) summarises the number of organisations listed by category in the directory of SIF. There are 425 companies in total. They all have an interest in ethical investment either as a side activity or main activity. The list is not exhaustive of all US organisations in the field of ethical investment, however it gives an idea of its importance.

Category	Number of organisations listed
Banks & Credit Unions	20 organisations.
Business/Organisational Financing & Venture Capital	17 organisations
Community Development Nonprofits & Loan Funds	51 organisations
Consultants: SRI Industry	17 organisations
Consultants: Advisors and/or Planners	171 organisations
Consultants: Money Managers	66 organisations
Institutional Investors & Program Related Investing	10 organisations
Mortgage Companies	3 organisations.
Mutual Fund Companies	27 organisations.
Pension Plan Administration	2 organisations
Periodicals & Information	16 organisations
Social Investment Research & Shareholder Activism	30 organisations

Table 24 - Number of organisations listed on the SFI directory (SIF, 2002)

5.2.3.2 UK: State impulse

Initiatives for UK ethical investment were started in the 1970s by churches, however the first registered fund was launched in 1984. It was called Friends Provident Stewardship Fund. Ethical investment really started to develop in UK in the 1980s, that is to say about ten years later than in the US. The second ethical fund was launched in 1988, the Merlin Ecology Fund (now the Jupiter Ecology Fund). It was set up in response to increasing concern about environmental issues and sustainable development.

The Ethical Investment Research Service (EIRIS), a rating organisation for ethical investment, was set up one year earlier (in1983) by a group of churches and charities which originally all had investments, and strong convictions of what they thought was right and wrong. They needed a research organisation to help them put their principles into practice when making investment decisions.

In 1991, the UK Social Investment Forum (UK SIF) was set up to bring key SRI figures together to co-operate in sharing knowledge and advancing the SRI agenda. UK SIF is a membership network (see Annex 8). In 2003 it counted 178 members from all over the world.

In 1991, Pensions & Investment Research Consultants (PIRC) was launched. It provides company research and policy advice on corporate responsibility and corporate governance issues to institutional investors.

But the real boost for ethical investment in the UK came from the government. In 1998, John Denham, the UK Pensions Minister, announced that he was "minded to require trustees to disclose to what extent, if any, they have taken account of social responsibility considerations in their investment strategy"(Shepherd, 2000). The Minister won early support from the pension fund of the Sainsbury supermarket chain, which stated that it wanted to improve the environmental behaviour of companies. The 3rd of July 2000 the Minister's proposals became a Law: the SRI Pension Disclosure Regulation, under the 1995 Pensions Act, came into force. The regulation requires that trustees of occupational pension funds disclose in the Statement of Investment Principles the extent (if at all) to which social, environmental or ethical considerations are taken into account in their investment strategies. This has had a considerable impact on the pension funds, 59% of which were to integrate social and environmental criteria in their investment strategies in 2000.

In response to the amendment to the 1995 Pensions Act, UKSIF started Just Pensions. It was initiated in autumn 2000 by the development charities Traidcraft and War on Want as a two-year project funded by the Community Fund. Just Pensions aims to educate and influence UK pension funds and other institutional investors about the importance of international development issues in their practice of SRI.

Another key event in the UK, but also beyond the UK, has been the launch of the FTSE4Good family of social indices (see section 5.3.4).

The British government – by enacting the SRI Pensions Disclosure Regulation – has had an important influence on the ethical investment movement in the UK. It has clearly led to an increase in the total assets invested under social and environmental criteria (see section 5.2.4).

5.2.4 Volume and Size

The mid-1970s saw a significant expansion of the ethical investment movement in the **US**. In 1975 four American funds emerged – Dreyfus Third Century, Pax World, Pioneer Fund and Pioneer II – to meet the needs of individual ethical investors. The South African experience, claimed as a victory, caused ethical investment to become "an accepted principle in the commercial world, largely pioneered by anti-apartheid action" (Kinder et al., 1994). According to the 2001 report produced by the US Social Investment Forum, there is over $2,010 billion of assets under management in ethical portfolios among which $136 are invested in mutual funds and $1,870 are found in separate accounts (SIF, 2001). Figure 16 shows the number of funds as well as the amount of money invested under ethical screening (not corrected from inflation rate) in the US during the period of 1975 to 2001. Both the number of funds and assets under management experienced the largest growth between 1997 and 1999. Total assets have increased by 35% from 1999 ($1,490) to 2001 ($2,010), 280% from 1997 ($529) to 2001 and 1,118% from 1995 ($165) to 2001. According to the SIF 2001 report, the growth rate of assets found in socially screened portfolios was over one and a half times that of all professionally managed investment assets in the US. In 2001 there was a total of $19,900 billion in investment assets under management in the US, compared to $16,300 billion in 1999, an increase of 22%. According to these figures, socially screened assets represent more than 10% of the total assets under management, and according to Bauer (2002), as of 30th of December 2000, the percentage of mutual funds under social screening represented 2.26% of the total mutual funds (Bauer, Koedijk, & Otten, 2002a). Note that the 2001 figures, although still going up, reveal a slow down of the curves. It may be interesting in the near future to check whether this tendency is continuing or whether it is an accident. If it continues, one may wonder whether or not ethical investment has reached some kind of maximum threshold.

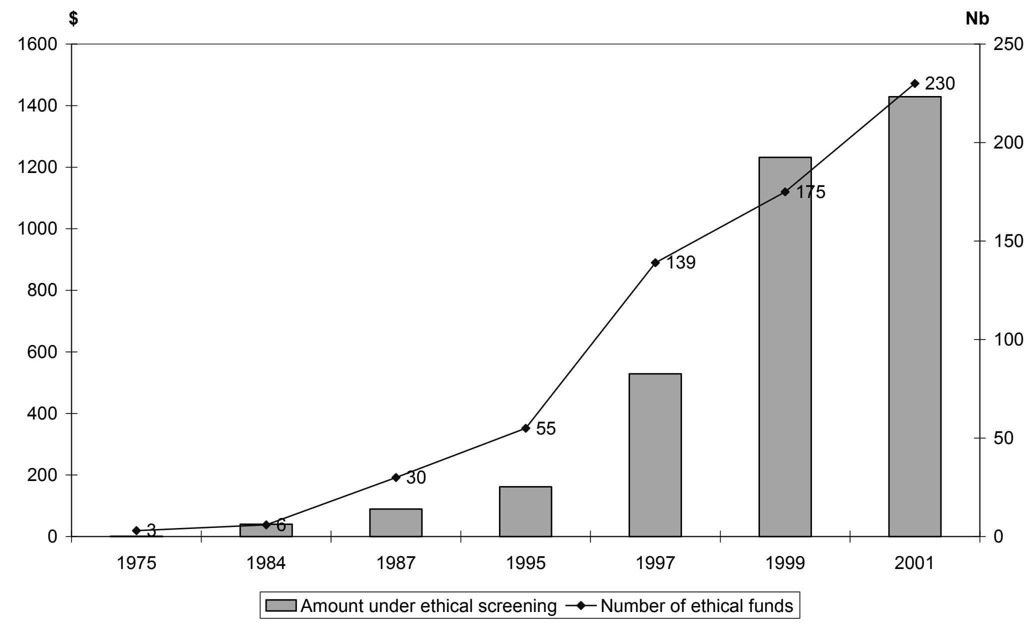


Figure 16– Ethical investment in the US from 1975:2001 (source: (Social Investment Forum, 2002) including "screening only" + "both screening and shareholder")

In the **UK**, the first registered ethical fund was launched in 1984: the Friends Provident Stewardship Fund. In 1988 a second ethical fund was launched: the Merlin Ecology Fund (now the Jupiter Ecology Fund). In 1997 the total values of assets with social and environmental criteria was of £23 billion and in 2001 it was of £225 billion. It increased by over £200 billion across four years (Sparkes, 2002). This amount includes all types of assets: unit trusts, Churches and charities funds, pension funds, insurance companies (see Table 25). Until 1997 churches held the largest amount of assets. But in 1999, pension funds started to use social and environmental screens and brought a large amount of assets, and in 2001 another actor joined in, the insurance companies which are today by far the largest investor. The UK Social Investment Forum published a survey in October 2000 that shows that 59% of the largest pension funds had incorporated social responsibility issues into their investment strategies (Shepherd, 2000). As for the unit trusts, in 2001 there 62 funds (out of 1972 retail funds in the UK) representing £3.5 billion - nearly 2,000 times the original estimate made by City Observers when the first ethical fund was launched (Shepherd, 2000). Scandinavian countries, Germany and the Netherlands first developed what is called 'green investment' such as the Triodos Green Fund. Those funds exclusively take into account environmental aspects. They usually invest in green technologies for example windmills, solar energy. Ethical funds considering social and environmental aspects came later. By the end of 1997, about DEM

1 billion ($0.49) were invested in 'green' funds in German-speaking European countries (Austria, Germany, Switzerland), about 0.2% of the total mainstream funds.

	1997	1999	2001
SRI Unit Trusts	2.2	3.1	3.5
Churches	12.5	14.0	13.0
Charities	8.0	10.0	25.0
Pension Funds	0.0	25.0	80.0
Insurance Companies	0.0	0.0	103.0
Total	22.7	52.2	224.5

Table 25 - Growth in Total UK SRI Assets (£bn) (Sparkes, 2002)

Recent studies from the SiRi Group show the recent figures of ethical investment in Europe. They published two reports, one in June 2001 and one in October 2002. Reports cover ethical investment in 13 countries, namely the UK, France, Sweden, Belgium, Germany, Switzerland, The Netherlands, Spain, Italy, Austria, Norway, Poland, and Finland. Portugal, Greece and Ireland were also covered but researchers of the study did not identify any funds matching the strict definitions used in this study (SIRI Group, 2002). As of October 2002, there were 280 green, social and ethical funds operating in Europe, an increase of 11% compared to June 2001 (SiRi Group, 2001; SIRI Group, 2002). Figure 17 shows the number of green, social and ethical funds in Europe. The number for 2001 has been calculated by projecting the figure of the first semester 2001 to the whole year. The total number of funds in Europe reached 282 (at Q4 2001). The number of funds has been multiplied by 70.5 between 1980-84 and 2000-01 and by 1.8 between 1995-99 and 2000-01 (SiRi Group, 2001).

The total assets that are socially screened have increased from 11.1 billion Euro at the end of 1999 to 14.4 billion Euro at the end 2001 (SIRI Group, 2002). According to the SiRi 2002 report four countries – United Kingdom, France, Sweden and Belgium – account for more than 68% of the funds available in Europe (see Figure 18), and three countries – UK, Sweden, Netherlands – hold 58% of the total European ethical retail asset (see Figure 19). Between 1999 and 2001, the number of funds in France increased by +170%. Although ethical investment is more developed in Northern Europe, Southern countries like Italy and Spain are increasingly showing interest (SustainaAbility, 2000). It is interesting to note that the 2002 SiRi report observes a relative saturation of the market. Although the number of funds and the asset under management grew rapidly and considerably, the percentage of total mutual fund assets remains small. As shown in Table 26, as of 30th of December 2000, the percentage of the total domestic fund market that is held by ethical funds in Europe did not go over 1.5% (Bauer et al., 2002a).

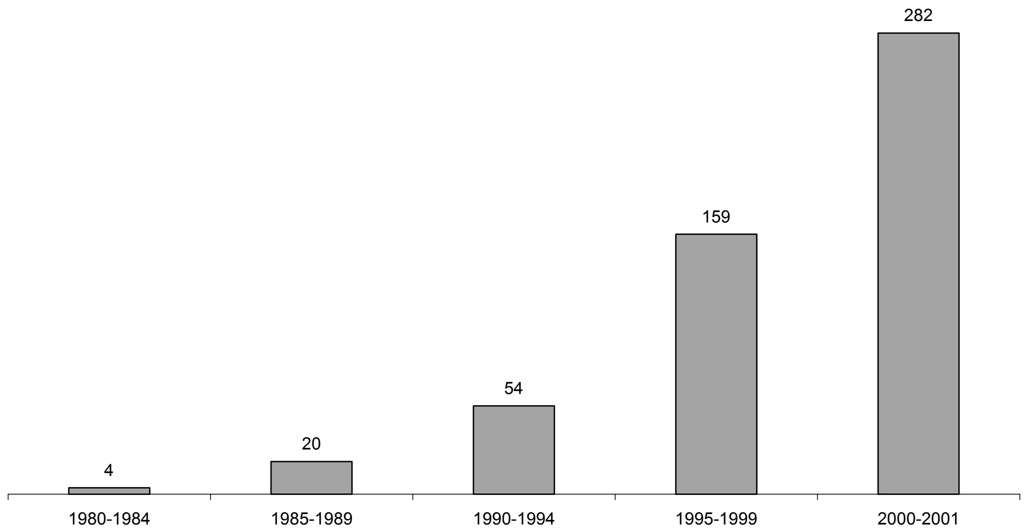


Figure 17 – Europe: Number of funds cumulated in the period 1980-2001 (Total= 251 + 31 estimation II sem. 2001) (SIRI Group, 2002)

Country	% of the total domestic fund market that is held by ethical funds
Belgium*	0.80%
France*	0.01%
Germany	0.04%
Italy*	0.45%
Sweden*	1.46%
Switzerland*	1.12%
The Netherlands	1.20%
United Kingdom	1.35%

Table 26- Overview of ethical fund market as of 30/12/2000 and *31/12/99 (extracted form (Bauer et al., 2002a))

Other parts of the world have also been active in the field of ethical investment, especially South Africa, Japan and Australia. In Asia, especially since the launch in 2001 of the Association for Sustainable & Responsible Investment in Asia (AsrIA), ethical investment is starting to grow. The total amount of money under management in Asia is around US$2.5billion (AsrIA, 2003). Japan and Hong Kong are the most active countries with seven ethical funds. In a survey of financial analysts in Australia, 77% said that they believed awareness of environmental factors among their colleagues has increased in recent years, and a further 82% agree that environmental concerns will become increasingly important for investments markets (UNEP, 1999). Socially responsible investment assets represent $13.9 billion in total (Deni Greene Consulting Services, 2002). The number of fund has been multiplied by 6.7 between 1996 and 2002. As of September 2002 there were 74 ethical funds.

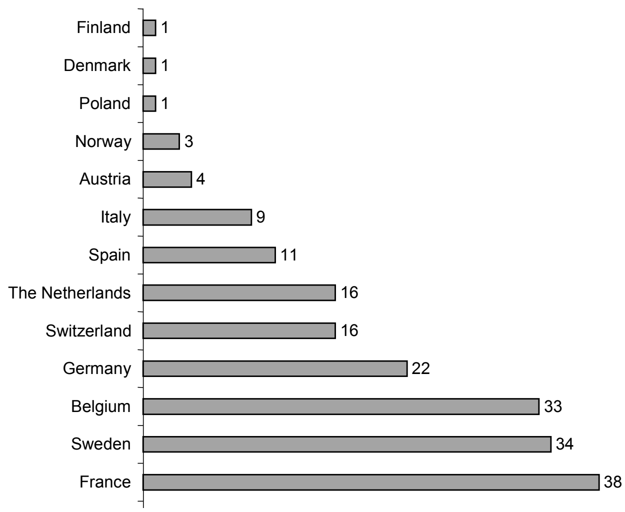


Figure 18 – Europe: Number of funds per country at 30/06/2001 (N=251) - Source: (SiRi Group, 2001)

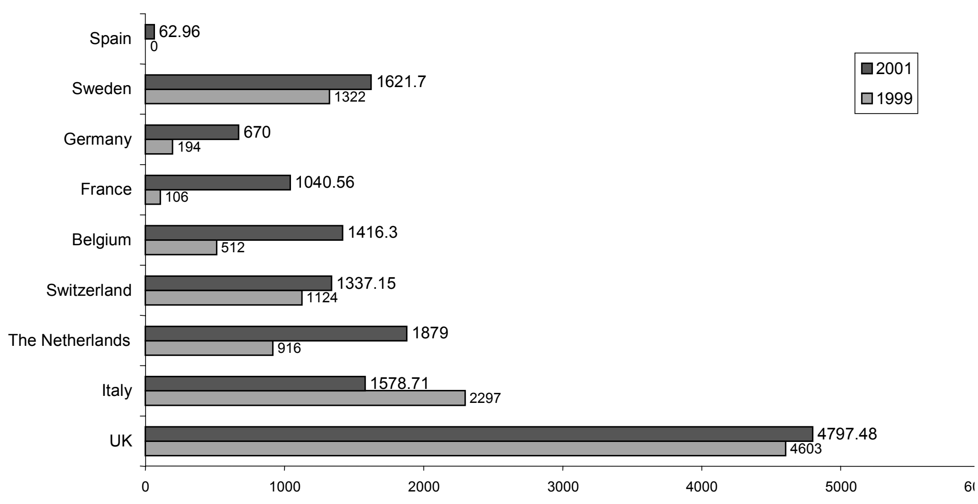


Figure 19 – Europe: Asset under Ethical screening per country - 1999 & 2001 (million Euro) – Source: (SIRI Group, 2002)

5.2.5 Screening and Criteria

5.2.5.1 Ethical criteria

Ethical investment involves the action of screening. This results in the selection or rejection of a stock or bond for a portfolio based on a set of predetermined criteria (also called screens; in this thesis 'screens' is used when referring to a set of criteria of the same type). Just as with regular funds, screening includes financial criteria, but unlike regular funds it also contains social, environmental and ethical criteria. The criteria used (social, environmental and ethical) have developed and changed over time.

Kinder and Domini (1997) present a brief overview of the evolution of social screening in the US and suggest the shape of screening in the future (Kinder, 1997). According to the authors, investors want their investments to reflect their principles. From simple assertions of repugnance towards war or tobacco, ethical screening has evolved into proxies for a sophisticated assessment of the relationship between corporations and the societies within which they operate. The authors present criteria as tools for implementing a philosophy. In their history of exclusionary and qualitative screening, they underline the crucial impact of religious sources of criteria in the ethical investment movement (Kinder et al., 1994; Kinder, 1997).

According to some authors there has been a spectacular growth in the items covered by the list of ethical investment criteria (Anderson et al., 1996; Beloe, 2000; Kinder, 1997). Beloe (2000) notes that if, originally ethical investment used to cover just a few areas, today it embraces over 3000 different criteria with new concerns – such as biotechnology or hand-gun manufacture continually supplementing existing criteria (Beloe, 2000).

The Triodos case, described in Chapter 2, shows that criteria have changed over time. Some existing criteria have been re-defined (that was the case for example in Triodos Case for some of the sustainable sectors such as health care); some criteria have been added ('pornography' was added to the Triodos fund criteria in 2002); some criteria have been deleted (telecommunication has been deleted from the Triodos list of sustainable activities in 2002).

Criteria are closely linked to major changes in society. They may be related to social, economic, political or cultural aspects. For example September 11th 2001, with the attack on the World Trade Centre, has made people rethink and maybe reconsider the screen about weapons. Right after the event Marc Russel-Jones, director of FTSE4GOOD France, said in an interview:"…we are not opposed to weaponry in itself. Every country is entitled to defend itself" (Bayard & Motte, 2001). Cowton (1999) presents a very relevant paper about the practice of ethical investment in which he discusses the development and implementation of ethical criteria for one specific fund in the

UK(Cowton, 1999). The main change has been the shift from a negative to a positive approach, entailing the development of new criteria.

Another example that shows the link between ethical investment criteria and the social, economic and political contexts is the Microsoft case. In 2000 KLD, an American rating organisation, faced questions from its clients: the organisation was asked to take position regarding the Microsoft antitrust trial (Lydenberg, 2000c). Historically antitrust issues have not been used as a criterion by KLD. In an interview Steve Lydenberg said that the case brought up series of questions (Lydenberg, 2000a): how far can investors and rating organisations go in the screening? Where are the boundaries of the ethical investment movement? What is the role of government? This case is interesting because it shows all the reasoning behind the decision of whether to add a criterion or not. Although KLD condemns the behaviour of Microsoft, the article concludes that it is of the government's responsibility to resolve the issue and not of a rating organisation. "It is neither necessary nor appropriate for social investing, through the imposition of a screen, to act in a way that might appear to undercut or substitute for government regulatory action at this time" (Lydenberg, 2000c). The author raises an interesting question about the limit to the role of ethical investment: "it should not unrealistically take on itself roles that are better and more naturally played by government and society more generally" (Lydenberg, 2000c).

According to Anderson (1996) the list of 'ethical' concerns is long and incoherent. He criticises criteria for being based not on ethical reasoning but on opinions. Mackenzie (1998) made a distinction between two kinds of fund: the market-led funds and the deliberative funds (Mackenzie, 1998). He argues that funds from the first category choose criteria on the basis of their perception of market demand. Criteria might then fluctuate and change a great deal. Funds from the second category choose criteria on the basis of reasoning about the ethics of corporate practice. Market-led funds, by not making use of ethical reasoning in their choice of ethical criteria, fall under the critic of Anderson.

Besides these more analytical surveys, there are many descriptive articles and guides concerning criteria (ICCR, 1998). These guides provide useful insights into the shared understandings of the ethical investment community. They attempt to describe each criteria used by ethical investment manager such as environment, product quality, working conditions, South Africa, etc. They also contain interesting accounts of the history, purpose and practicalities of ethical investment.

An interesting example is the framework developed by Hoffman *et al*. (1997). It is based on the following thesis: "Technological developments, economic systems, and monetary structures do not drop down form heaven. They are neither perfect nor incapable of being influenced but are rather results of social processes within a culture" (Hoffmann, Ott, & Scherhorn, 1997). For the elaboration of his criteria he has adopted a value-tree analysis

(VTA) developed by Ortwin Renn. The objective of this method is to provide a stronger emphasis for moral or evaluative (axiological) components against the predominance of technical or economic criteria (efficiency, profitability). The VTA method originated in rational-choice theory with respect to collective decision-making. The tree for the ethical evaluation of companies comprises three main dimensions, which constitute the three main branches of the value tree. They are environmental compatibility, social compatibility and cultural compatibility. Hoffmann considers culture as an important dimension as the moral understanding inherent in cultures plays an important role in the development and definition of environmental and social issues.

5.2.5.2 Screening: four generations

The screening process used for ethical funds (or indices) may combine different types of screens. For example Triodos MeerWaarde Fund combines exclusionary, inclusionary and comparative screens (see chapter 2 section .3.1 for a definition). However the Dow Jones Sustainability Index and the FTSE4Good only use a combination of exclusionary and comparative screens.

The evolution of the screening process has often been split into four generations (Ethibel, 2003b; Observatoire de la Finance, 2001). Each generation refers to a different combination of screens. Although each generation corresponds to a development in time, it is difficult to clearly define each period. One of the reasons is that the development of ethical investment varies across countries. Some countries may have been through all the phases while other may have skipped one or two. Moreover funds from different generations may co-exist. One generation does not exclude another. Some funds evolve from one generation to another one but at a different pace and in different ways and other funds may strategically choose to stay in a certain generation. Although there is a general tendency to move towards the last generation, this is however not the case for every fund.

First generation: focus on exclusionary criteria

The first generation of ethical investment funds is based on what is called exclusionary criteria. Historically this type of screening was the first to be applied in the field of ethical investment. It grew out of deep personal convictions that it would be wrong to make money from certain industries (Domini, 2001).

Traditionally these are criteria used by church groups, such as Pax World Fund in US (launched in 1971) or the Friends Provident Stewardship Trust in UK (launched in 1984). They eliminate a company from consideration for investment if it is involved in a particular area of social concern. It takes a “refusal to profit from” stance (Lydenberg, 2000b). Through exclusionary screens investors state that they do not want to benefit, under any circumstance, from what they perceive is the harm to society caused by companies involved in these areas. The company is excluded from consideration regardless of positive social or/and environmental initiatives it may have taken. For example when a company is involved in the production of weapon, ethical investors using a weapon exclusionary screen exclude it, regardless of the company's initiatives in the social and environmental areas. Whole industry sectors are excluded from their investment portfolios. However, no screening is applied to companies belonging to the "accepted" sectors (Observatoire de la Finance, 2001).

The way exclusionary criteria are applied differs: it can be either turnover or activity-related or process-related. Turnover-related means that the percentage of turnover related to the screen is looked at. If the percentage exceeds the threshold set up by the rating organisation or the investor, the company is excluded. Percentages applied vary among funds. At Triodos for example it is 5%. Process-related exclusionary criteria automatically and directly exclude companies that are involved in one of the criteria. Triodos excludes any company involved in child labour.

The number and definition of exclusionary criteria vary a lot. Box 1 shows the diversity of definitions for the criterion 'Tobacco'. Definitions disclosed have been extracted from different ethical funds. Exclusionary criteria may vary from fund to fund, from region to region and have evolved over time: South Africa in the 1970s and 1980s or abortion in the US, genetic engineering, nuclear power, or pornography in Europe, and aboriginal rights in Australia.

In spite of some differences a large number of exclusionary criteria are commonly used in the ethical investment community: alcohol, gambling, tobacco, weaponry, human rights and animal testing. This set of criteria was developed at the very beginning of the ethical investment movement and has hardly changed. Table 27 shows the most exclusionary criteria used in the US between 1995 and 2001. The screen the most used since 1995 has been tobacco. Gambling, weapons and alcohol are increasingly used, by 1999 they all reached 80%.

'named tobacco companies'
'any company in which tobacco or alcohol accounts for more than 10% of its total business'
'companies with major interests in tobacco or alcohol'
'companies materially involved in tobacco or alcohol'
'companies significantly involved in the production or sale of tobacco or alcohol'
'companies who produce tobacco or alcohol'
'companies with interests in tobacco or alcohol, including supermarket selling alcohol'
'over 5% of turnover yielded by tobacco-related business'
'tobacco makers and distributors earning more than 15% of turnover'

Box 1 - Example of diversity in definition of exclusionary screens extracted from ethical funds or rating organisations: Case of the tobacco and alcohol issue

	1995	1997	1999	2001
Tobacco	86%	84%	96%	>50%
Gambling	-	72%	86%	>50%
Weapons	64%	69%	81%	>50%
Alcohol	73%	68%	83%	>50%
Birth Control/Abortion	-	50%	23%	Less than 30%
Environment	38%	37%	79%	>50%
Labor/Fair Employment	22%	25%	38%	>50%
Human Rights	42%	23%	43%	>50%
Animal Welfare	24%	7%	15%	30% to 49%

Table 27 - US most common screens (SIF, 1995, 1997, 1999, 2001)

Second generation: focus on inclusionary criteria

According to Observatoire de la Finance (2001), the second generation of funds appeared in the mid-1980s. Screenings are based on a more positive approach: companies are assessed according to their "positive contribution" to society (Observatoire de la Finance, 2001). It mainly refers to green funds focusing on pollution control technologies which emerged as a result of a wave of environmental problems in Europe (forest dieback, acid rain, eutrophication, etc.).

These funds are based on inclusionary screens. This involves seeking out companies demonstrating a commitment to social or environmental issues. Just as the first generation excludes whole sectors, the second generation does the opposite and includes entire sectors thought to have a positive impact on society or/and stimulate development towards sustainability such as organic farming, renewable energy and sustainable means of transport. Companies included in such portfolios are usually small and medium-sized enterprises.

Third generation: focus on the three Ps (People, Planet, Profit), use of comparative criteria

Third generation funds, which emerged in the second half of the 1990s, aim at achieving both financial performance and sustainability, i.e. good environmental, economic and social performance (Observatoire de la Finance, 2001). This generation includes a new type of criteria, the comparative criteria.

Comparative or relative screens take a different approach from exclusionary or inclusionary screens. This approach usually takes into consideration the leadership's strategic commitments and vision, company policies and codes of conduct which have been set up and their results (practices, performance indicators, etc). It looks at areas such as the environmental management system, employee relations, diversity, community, and product quality. This assessment looks at the relationship of the company with its stakeholders, what is in place and how does it work within the company. The stakeholders considered the most important are: the environment, employees, community, vendors and contractors and shareholders (corporate governance). The selection process is based on a more comprehensive approach.

Contrary to the exclusionary criteria that are based on "should not do", relative criteria are based on the 'best in class'. Benchmarking is at the core of this generation of funds. It uses the market as a tool to stimulate companies. The third generation funds do not exclusively use relative screens. Some of them combine screens, like Triodos MeerWaarde Fund: exclusionary, inclusive and relative screens.

Fourth generation: focus on communication with stakeholders

A fourth generation may be arising (Ethibel, 2003b; Observatoire de la Finance, 2001). Just like the third generation funds, these use relative screenings or a mix of the three type of screens. However the funds are using a more complex set of social, environmental, ethical and human rights indicators, frequently combined with wide-ranging exclusionary criteria. It also seems that there is a new emphasis: communication with 'stakeholders'. Funds are getting more and more sensitive to communication and transparency. For example, in 2002 Triodos Research added a new category to company evaluation which is called 'Transparency and communication with stakeholders'. Companies are increasingly being asked to be open and active/proactive with their environment at large. It is not enough to report, companies must also be open to dialogue.

The four generations presented above highlight a certain evolution of the screens over time. There was a shift from an exclusionary to a best-in-class approach, with lately an emphasis on the company's relationship with its stakeholders.

5.2.6 Conclusion

The history of ethical investment is linked to religious groups, the most known being the Quakers, who refuse any connection with specific businesses. For a long time they have excluded what they regard as 'bad' companies. Although the literature on ethical investment refers mainly to the US, religious groups in Europe have also adopted the same strategy, such as the Methodist Church in the UK.

From the early stage of ethical investment up until the1970s, the dominant investor was religious groups. In the 1960s/1970s, a movement related to corporate conduct started to emerge in the US. US citizen groups attacked corporations for misbehaving. The battles were against discrimination, war and pollution. Citizen groups used ethical investment to lobby corporations. It provided them with two important options to wield power which, in reference to Hirschman (Hirschman, 1970), can be described as exit and voice. Through the activity of investing, selling and buying, shareholders can exert the exit form of power. Shareholders that are unsatisfied with company 'X' sell the shares and buy shares from another company. Exit of shareholders in response to a sustainability performance decline will result in loss of capital for the company. Investors hope that by selling the shares, it will result in an unbalance between sellers and buyers, entailing at a drop of the share price. The other option, voice, can be activated through shareholder activism (Graves, K., & S., 2001; Hoffman, 1996; Pearce & Ganzi, 2002). Rather than simply divesting from companies engaged in activities they consider being contrary to their values, investors can choose to actively invest and use their positions as shareholders to affect corporate behaviour. Shareholders interact direct with the company and thereby want to make their voice heard. The resort to voice, rather than exit, is for the shareholders to make an attempt at changing the practices, policies, and outputs of the firm. Exit and voice options are not exclusive. They are both useful and necessary and it is best to find an equilibrium between the two. Voice option can be used as a preventive strategy in order to alert the company and exit can be used as ultimate solution if the company does not act/react on the alert sign.

Citizen groups have greatly contributed to the development of ethical investment in the US. In the UK, there was a time lag of around ten years. Just as in the US, ethical investment started with Churches, but then the government played an important role. At the end of the 1990s a Minister proposed a law for pension funds to disclose whether or not the fund integrated social and environmental criteria. This created a powerful incentive for pension funds to revise their investment strategies. It is interesting to note that in the US and UK the push for ethical investment came from very different actors as well as the motives; an activist tool in US and a new way of investing in the UK ("Ethical investment means choosing investments that reflect your values" (EIRIS, 2001)).

As regards the meaning of ethical investment, there is much confusion and uncertainty. The literature review shows that there is no agreement. Definitions reviewed describe ethical investment in terms of actions. They do not address the nature of the term 'ethical', 'socially responsible' or 'sustainable'. It is also interesting to note that ethical investment is identified by several names which adds to the confusion about the meaning, but also shows a certain diversity. The screens used, exclusionary, inclusionary or comparative, have evolved over time. There was a shift from pure exclusion to a more positive benchmarking approach. Within each type of screen, it seems that the criteria used are pretty much the same among the funds. It is especially noticeable for the exclusionary criteria where in 2001 in the US 8 criteria were used by more than 50% of screened funds.

When looking at the figures, ethical investment has enormously expanded, especially since 1995. That is the case in the US, UK and other countries as well. It can be qualified of an international phenomenon.

5.3 Financial context

This section investigates ethical investment as a financial activity. Ethical investment is, as the name indicates, an investing activity, that is the purchasing of shares selectively in profit-making companies listed on the stock market. In order to better understand the process of ethical investment, it is of importance to review some basic aspects of investing.

Ethical investment has also been an important phenomenon in the 'greening' of the financial sector. For a long time financial institutions have been absent from the sustainable development debate. However since the early 1990s they are facing increasing pressures to integrate and stimulate sustainability. In this section, ethical investment is placed in the context of the greening of financial institutions.

5.3.1 Ethical investment: an investing activity

Investing refers to several and different types of activity. Productive investments such as a firm's purchasing a new machine or planting a seed may be distinguished from financial investment such as the purchase of a bond or share. This thesis deals with financial investment on the stock market and only investment from private financial services. It does not address public international financial institutions such as multilateral development banks or bilateral export credit agencies. It also excludes all investments in commodities such as gold or cocoa. But what is a stock market? How does it work? Who invests? Those are the types of questions addressed below.

5.3.1.1 The Stock Exchange

Whether investing directly, by holding **Stock Exchange** securities, or indirectly, by saving through a pension fund or insurance company, the individual investor is providing funds for investment in the company sector, be it manufacturing or services (Rutterford, 1993).

The stock market is the place where investors make financial investment. Classical approaches of financial investment consider that the financial investor has no direct interest in the type of products or services produced by the company. His only concern is the amount of money he has invested in the equity or shares[5] of the company and how much money he will receive in the future. "This type of investment is 'pure' in the sense that the investor has no interest in his investment other than the future income it will generate" (Rutterford, 1993). Investors are completely detached from the companies as organisations. Companies are basically represented by a figure, the earnings (Zorn, 2003).

Quoted investments consist of the exchange of a known amount of money in return for the expectation of future receipts of money. The financial investments which are quoted on the Stock Exchange can be bought and sold by investors at any time. Quoted and marketable securities are those that have a market price. A stock market quotation is not to be confused with a 'listing'. Although most quoted securities are listed, which means that the issuers of the securities have to comply with rules laid down by the Stock Exchange, some are unlisted, and yet can be bought and sold at a market price.

The **role of the Stock Exchange** is twofold. It is a way for companies to transfer risk. A company may decide to share or transfer some of the risk of producing or servicing a product by issuing securities to investors. The investors will take on the risk of the company via the medium of the Stock Exchange. In this way, the Stock Exchange in its role of primary market enables the risk of physical investment to be transferred to financial investors. The second function of the Stock Exchange is to act as a secondary market, where securities can be traded throughout their lives. Stocks and shares are marketable, meaning that they can be bought and sold at any moment of their lives. Each investor has different consumption preferences. Compared to physical investments that are most of the time and naturally long term investment, financial investments are short term oriented. Through the marketability the long term is transformed into short term.

The **major types of investor** on the Stock exchange have changed over time, with the main change being the decline of individual investors and the rise of institutional investors. Individuals now invest indirectly in the stock market through the institutional investors. Savings are channelled into pension funds and insurance companies and, to a lesser extent, into unit trusts and investment trusts (Rutterford, 1993; Zorn, 2003).

5.3.1.2 Investing institutions

In Europe and the US, equity investments have gained great popularity in recent years both among households and institutional investors (investment funds, life insurance companies and pension funds) (European Central Bank, 2001). In Europe, the share of

[5] Share is a specific type of security, sometimes known as equity to reflect ownership of the company. 'Security' is a general term for any type of financial investment traded on the Stock Exchange.

equity in financial assets held by these two categories of investors almost doubled between 1995 and 1999.

There are four main channels that can be used by investors to invest (European Central Bank, 2001):

- investment funds (collective or non-collective);
- investment in life insurance products, which can be managed directly or indirectly by the insurance company (through collective or non-collective investment funds);
- investment in pension funds, which can be managed directly or indirectly by the insurance company (through collective or non-collective investment funds)
- and direct holdings of equities.

In 2002 in the UK, where the volume of socially screened portfolio is the highest in Europe, among the institutional investors the ownership of ordinary shares in listed companies is as followed: insurance companies (40%), pension funds (32.2%), units and investment trusts (8%), and other financial companies (19.8%) (National Statistics, 2001).

Typically, investing institutions do not consider environmental and social aspects in their investment design. Investment management companies manage their funds to attract a wide consumer base and to minimise risks.

5.3.2 Sustainable banking

Ethical investment is managed by financial institutions such as investment banks, mutual funds or pension funds. For a long time the financial sector has been considered as a 'clean' activity because of its limited social and environmental impact compared to other industries. Therefore there was very little pressures to integrate sustainability in its activities. However in the 1980s but especially in the 1990s transnational organisations like the United Nations and the European Community pointed at the responsibilities of financial institutions towards sustainable development.

Ethical investment is one of the activities that contributed to the 'greening' of the financial sector.

5.3.2.1 Sustainability: a growing awareness among financial institutions

For a long time financial institutions have denied their role and responsibilities towards sustainable development. However financial institutions are key economic and social actors, and thereby can have a decisive role.

An important element that has triggered the awareness and willingness of financial institutions to consider sustainability in their business is liability risk for which three events have been crucial. Firstly, in 1980, the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) in the U.S. backed up the Environmental Protection Agency 's (EPA) efforts to clean up contaminated sites. This Act – also known as Superfund – made owners of contaminated sites liable for the cleanups. Although the Act exempted lenders from ownership status, due to the complexity of the issues involved, some banks were forced to enter into the court procedure and some recorded financial losses (Environmental Protection Agency, 2001). Secondly, nine years later (1989) the European Commission issued the Directive on Civil Liability for Damage Caused by Waste. According to this document the liability for damage caused by waste could be assigned to both a producer of the waste and a person "who had actual control of the waste, if he is not able within a reasonable period to identify the producer" (extracted from (Schmidheiny & Zorraquin, 1996)). The bankers' community found the wording "actual control" potentially dangerous, since the interpretation of the phrase could lead to lender's liability in certain instances. And thirdly, there was the Fleet Factors case in 1990. The Fleet Factors Corporation case was among the first in a series of legal proceedings in the U.S. that eviscerated the banks' exemption from Superfund liability. The liability issue has been an important element that started to question the role of financial institutions within sustainable development. Although it is a rather negative approach, financial institutions were forced to consider environmental aspects in their business.

In addition to the liability issue, some initiatives took place at the beginning of the 1990s. The UNEP Financial Institutions Initiative (UNEP FII) was launched in 1992. It was developed to “promote the integration of environmental considerations into all aspects of the financial sector's operations and services.” (United Nations Environment Programme, 1999). This initiative targeted a broad range of financial institutions from commercial banks and investment banks to venture capitalists, asset managers and multi-lateral development banks and agencies. The same year UNEP FII launched the Statement by Banks on Environment and Sustainable Development through which signatories commit themselves to integrate environmental considerations in their internal banking operations, subscribe to the precautionary approach to environmental management, and support and develop suitable banking products and services designed to promote environmental protection. In 1992 five financial institutions were signatories to the Statement, by April 2002 there were 192 commercial banks from more than 50 countries (UNEP, 2002).

In 1993, the European Community Programme of Policy and Action in Relation to the Environment and Sustainable Development (the Fifth Environmental Programme) recognised that financial institutions exercise considerable influence over most areas of economic activity: “financial institutions which assume the risk of companies and plants can exercise considerable influence -in some cases control- over investment management decisions which could be brought into play for the benefit of the environment" (European Community, 1993). Under the Fifth Environmental Action Programme the European Commission published the so-called Green Paper on remedying environmental damage. It outlined that the strict liability system should be backed by joint compensation funds financed by industry to pay for the costs of environmental restoration where a polluter could not be found, was unable to pay, or where its liability could not be established (IISD, 1999).

In 1997, the Delphi report came out. It states clearly that sustainable development should be at the core of financial markets activity (Delphi International LTD & s, 1997). The report's authors argue that the definition of sustainable development makes explicit that sustainable development is about capital, the core of financial markets activity. According to the Delphi report, financial institutions can help by removing any unnecessary obstacles to accessing finance, and by ensuring finance is readily available at the lowest practical cost.

In 1997 BankAmerica Corporation became the first major U.S. financial services company to endorse the CERES Principles, a set of principles defining corporate environmental policy. These principles were developed by a coalition of investors, companies and environmental groups called the Coalition for Environmentally Responsible Economies (CERES). Corporations that have endorsed the CERES Principles or similar guidelines have traditionally been firms in the energy and manufacturing industries. BankAmerica was the first Fortune 500 multinational financial services company to sign such a set of principles. Bank Boston, the oldest U.S. commercial bank, shortly followed the BankAmerica's example (Bank Of America). By endorsing principles developed by a non-profit organisation these financial institutions have clearly demonstrated an increase in bankers' interest in sustainable development issues.

In May 1999 UBS AG was the first bank to receive certification according to the ISO 14001 environmental standard.

In 2000 in the UK, a new regulation related to the disclosure of the use of social and environmental information by pension funds has been enforced (see section 5.2.4). And more recently, still in the UK, The London Principles of Sustainable Finance have been developed. It is a voluntary code for financial institutions that demonstrate their commitment to the financing of sustainable development (Pearce & Mills, 2002). It focuses on the role of financial institutions in providing financial services that facilitate economic prosperity, while ensuring that the projects and business activities financed protect or enhance the environment and social development.

The events listed in Table 28, although not exhaustive, show that since the 1980s and especially the 1990s financial institutions have had to face increasing pressures to recognise their responsibilities towards sustainability. Pressures started in the US with environmental liability, which came in Europe nine years later. In 1992, it became a global issue when the United Nations Environment Programme (UNEP) established a unit devoted to the financial sector. Up until recently, the focus was on the environment and ethical investment was not part of the debate. However recent events, especially the Delphi Report and the book of Schmidheiny and Zorraquin (Schmidheiny *et al*., 1996), show that the focus has broadened toward the whole concept of sustainability. Moreover, it is interesting to note that ethical investment has become an important element of the greening of the financial sector (Bouma et al., 2001). A number of articles present it as a promising activity where financial institutions can 'make a difference'.

Another important event for financial institutions but especially for ethical investment has been the creation of sustainable indices such as the Dow Jones Sustainability and the FTSE4Good. It has brought sustainability right into the stock market (see section 5.3.4).

1980	Superfund instituted in the U.S.
1989	EC Commission issues the Directive on Civil Liability for Damage Caused by Waste
1990	Fleet Factors case, US
1992	UNEP Financial Institutions Initiative (FII)
1993	Fifth EC Environmental Action Programme –Towards Sustainability
1993	Green Paper on remedying environmental damage (EU)
1997	Bank America became the first Fortune 500 bank to endorse CERES Principles (US)
1999	UBS, first bank to obtain the ISO 14001 certification
1999	(September) Dow Jones Sustainability, Dow Jones Indexes & SAM Sustainability Group launch Sustainability Indexes
2000	SRI Pensions Disclosure Regulation (UK)
2002	The London Principles of Sustainable Finance (UK)

Table 28 - Events and initiatives that have shaped the role of the banking sector in sustainable development

5.3.3 Financial institutions' approaches to sustainability

Financial institutions' approaches to sustainability vary. An important body of the literature considers that the approach varies according to what 'sustainability' means for financial organisations (Barannik, 2000; Coulson, 2001; Figge, 2001; Mauser, 2001; Pederson & Atkins, 2001). It may be considered as a risk: most of the time it means financial risk such as pollution redemption but it can also be reputation risk. Sustainability may be an opportunity, for example launch of a new range of environment-friendly products, or a competitive advantage in order to differentiate an organisation from its competitors. Sustainability may also be more deeply integrated into the organisation's values and be a kind of ideology or *raison d'être* the organisation stands for.

Jeucken (2001) distinguishes four different stages of financial institutions' approach to sustainable development: defensive, preventive, offensive and sustainable banking. The first stage is defensive. In this stage a financial institution is non-active and may try to delay or oppose new legislation. Organisations in this phase usually perceive sustainability as a risk and have an inactive or reactive attitude. They do not want to change except if they are forced to. Opportunities like cost savings are not taken up. The second phase is preventive. This stage diverges from the previous because potential cost savings and eco-efficiency are considered. This phase involves an inactive attitude, waiting for change to happen, and a risk perception of sustainability that may at the end bring some cost savings. The third stage is offensive. In this stage financial institutions consider their external activities in addition to the internal. Sustainability becomes a market opportunity. The organisation sees an opportunity to improve its business and its image by integrating sustainability. Its attitude is proactive with an optimisation perspective or even interactive – trying to be innovative and leading. The last phase is sustainable banking. During this phase the focus is entirely on sustainability. The objective of the financial institution is to have the highest sustainable rate of return. This phase necessitates sustainability to be an ideology rather than a market tool. According to Jeucken, financial institutions develop through these different phases over time. However the last stage is hardly reachable, as it requires placing sustainability at the core of the organisation. Triodos Bank in the Netherlands and the Co-operative Bank in the UK are two examples of the very few banks in the Sustainable phase (Bouma & Jeucken, 1999).

Whatever the phase a financial institution is in, sustainability can be operationalised at several levels of the organisation's activity. UNEP FII distinguishes five areas of banking operations (United Nations Environment Programme):

- Internal banking operations and housekeeping;
- Credit and investment risk assessment and management;
- New lending and investment opportunities (new financial products and services);
- External communication and co-operation;
- Staff awareness and training.

The categories of UNEP can be divided into two aspects: internal and external. Internal concerns housekeeping such as power usage, paper use, and business travel, and training and awareness raising of the staff. The external category includes the services of financial institutions such as lending, investing, but also external communication by increasing the awareness of their customers about sustainability issues (Scholes, 1997).

Financial institutions offer ways to stimulate and contribute to sustainable development. The Delphi report (1997) views the role of financial institutions towards sustainability as follows (Delphi International LTD et al., 1997): as valuers (assessing risks and estimating returns); as victims of environmental change and realised environmental risks; as innovators (development of new financial products to encourage sustainable development); as polluters (consuming natural resources); as investors (supply of investment needed to achieve sustainable development); and as powerful stakeholders (as shareholders and lenders they can influence that management of companies). In particular, they can create opportunities for sustainable business through their financing policy and may be influential through their activities. Jeucken (2001), Schmidheiny *et al*. (1996) offer a comprehensive introduction to the role and responsibility that financial institutions have towards achieving sustainable development.

5.3.4 Sustainability indices

The development of the ethical investment movement has led to the creation of specific market indices based on financial, social and environmental information. These indices are called social or sustainability indices.

The first social index was launched in the US in 1990 by KLD Research & Analytics, Inc. The index is called **Domini 400 Social Index**. Its selection is based both upon ratings and exclusionary criteria determined by KLD (KLD, 2002). The exclusionary criteria used are: civil nuclear weapons, weapons, gambling, alcohol and tobacco. The Domini 400 Social Index is a selection of the most responsible companies in the S&P 500. The family of KLD indexes has since grown to include several American indexes: the LCSI, which groups 730 companies, the Russell 1000, and most recently, BMSI, which include 2200 companies from the Russell 3000. Subsequently numerous other indexes have been set up in North America, especially by investment funds, such as the Citizens Index (launched in 1994) or the Calvert Social Index (launched in 2000).

In 1999 a new index was established. For the first time it was called a 'sustainable' index. It was been introduced with widespread media coverage and has had an important echo?? on the financial community. The **Dow Jones Sustainability Index** (DJSI) has been launched in September 1999 to track the performance of companies that are leaders in sustainable development. For the first time the emphasis was on sustainability including social and environmental aspects. Its partnership with a well-established index publisher and its wide coverage turned it into an important reference. The DJSI is focused on meeting financial markets' demands for (DJSI, 2001):

- A global, rational, consistent, flexible and, most importantly, investable index to benchmark the performance of investments in sustainability companies and funds;
- An independent reliable index as a basis for derivatives and funds focused on sustainability companies.

The DJSI meets these demands by combining the expertise and resources of its partners: Dow Jones & Company, the world's leading global index provider; and SAM

Sustainability Group (Sustainability Asset Management), an independent, Zurich-based company focused on integrated corporate sustainability in financial services and world-renowned pioneer in corporate sustainability assessment.

DJSI consists of two indices: Dow Jones Sustainability Indexes World (DJSI World) and Dow Jones Sustainability Indexes Stoxx (DJSI Stoxx). The DJSI World consists of more than 300 companies that represent the top 10% of the leading sustainability companies in 59 industry groups in the 33 countries covered by the biggest 2500 companies in the Dow Jones Global Indexes (DJSI, 2003). The DJSI World is composed of specialized indexes excluding companies that generate revenue from alcohol, tobacco, gambling, armaments & firearms or all of these industries. Note that the index changed name in 2001. It used to be called Dow Jones Sustainability Group Indexes (DJSGI) the two first years (from 1999 till 2001).

2001 saw the launch of a new index: the DJSI Stoxx for European companies. The index is subdivided into sub-indexes based on sectorial exclusion screens – tobacco, alcohol, gambling, heavy weapons, and firearms (DJSI, 2003). The DJSI Stoxx tracks the performance of the top 20% of the companies in the Dow Jones Stoxx 600 Index that lead the field in terms of sustainability. The DJSI World consists of the top 10% of the leading sustainability companies in each of the DJSI industry groups.

Two and a half year later, in July 2001, the **FTSE4Good** was launched. The FTSE4GOOD family of indexes (four indexes) was established by the FTSE corporation (owned by the Financial Times and the London Stock Exchange). FTSE4GOOD distinguished itself by its policy of donating all of the income generated by license to UNICEF. The family is made up of four benchmark indexes: Global, Europe, US, and GB, in addition to four trading indexes which are a tool for the creation of derivatives. The same selection criteria (screening rules and definitions) are applied to all of the indices. They are defined by a committee independent of the FTSE made up of specialists in the ethical investment field. This committee is also in charge of supervising the application of the rules and following the trends in selection criteria. Based on the screens defined by the FTSE4GOOD indexes committee, the EIRIS research institute, with the assistance of its network of partners, is in charge of the information gathering process and selection according to criteria defined by the FTSE4GOOD. Companies involved in tobacco, weapons and nuclear power are excluded (FTSE, 2003).

The Dow Jones Sustainability and the FTSE4Good indices have been acclaimed and seen as a victory. But they also have been the subject of criticism such as "FTSE4Good is nothing more than traditional stick market capitalism dressed up to look socially responsible" (Mackenzie & Cartridge, 2002). The indices have been an important step to bring ethical investment to the heart of the financial market. The Dow Jones

Sustainability and the FTSE4Good indices have stimulated other smaller index providers such as the London Sustainability Index and ASPI Eurozone in France, both launched in 2001.

5.3.5 Conclusion

The individual investment decision by economic agents is often construed as a present sacrifice for future benefit. Classical and neoclassical economists always view investment as an economic end, whose aim is to contribute to wealth. In this view the investment decision is conceived in purely economic terms (see (Turner, Pearce, & Bateman, 1994)). As described above, in the classic view investors do not have direct contact with corporations. They are completely detached from the stock-quoted companies and their only concern is the amount of money invested.

However the history of ethical investment suggest that ethical investors have a different type of relationship with corporations, manage the fund differently, and have different objectives. Ethical investment breaks off with the traditional way of investing by firstly taking into account non-economic variables, secondly by seeking to establish a direct relation with corporations (for example through shareholder engagement) and thirdly by considering social and environmental performances as equally important as financial performance. Bruyn (1987) describes ethical investment as a form of investment that has brought "a conscience into capital market" (Bruyn, 1987).

Since the beginning of the 1990s, financial institutions are facing increasing pressures to take into account sustainable development. All activities of financial institutions need to be reconsidered. Investment is part of it. The UNEP FII and the European Commission consider ethical investment as one of the activities through which financial institutions can make a difference.

According to Jeucken (2001), financial institutions do not have the same attitude towards sustainability. They may be defensive, preventive, offensive or sustainable. Financial institutions may engage in ethical investing for several reasons. They may wait for a law. That was the case for example in the UK; although the new law did not require pension funds to use ethical criteria, figures in section 5.2.4 show that it has been an important incentive. Financial institutions may perceive it as an opportunity: there is a demand for ethical investment. Or a last motive may be based on the core values of the organisation. For a bank like Triodos, whose mission is to "contribute to a more people-orientated society – one which respects people, the environment and culture" (Triodos Bank, 2000a), ethical investment may seem to be the only way of investing.

5.4 Ideological context

This section intends to picture the ideological context in which ethical investment has developed. The aim is not to provide a complete literature review but rather to review it in the context of ethical investment and to link it to the changes that happened over time within ethical investment.

5.4.1 Ethics in ethical investment

Ethics is the study of moral problems (Hospers, 1963). It addresses the norms that guide human behaviour (O'Hara, 1998). Taylor defines ethics as “philosophical inquiry into the nature and grounds of morality” (Taylor, 1975). The term ‘morality’ refers as a general name for moral judgements, standards, and rules of conduct. A moral norm may be either a rule of conduct or a standard of evaluation. That is, it may be a requirement that anyone in certain circumstances should do, or refrain from doing, a certain kind of action. Or the norm may be a standard of evaluation, which we implicitly refer to whenever we decide whether something is good or bad, desirable or undesirable, worthy or worthless. The rules of conduct and standards of evaluation someone uses in their moral judgements need not to be the conventionally accepted norms of a society’s established moral code. They may instead be norms which the individual has chosen for himself after having rejected the conventional morality of his society. The rules and standards a person or an organisation accepts become part of his/her ‘philosophy of life’, guiding his/her choices and giving direction to his/her conduct. It provides reasons for considering that some goals are worth striving for more than others (Taylor, 1975). Ethics provides rational grounds and moral norms for acting and judging.

In a study carried by Raymont Baumhart asking businessmen “What does ethical mean to you”, fifty percent of them defined ‘ethical’ as ‘what my feelings tell me is right’; 25 percent defined it in religious terms as what is ‘in accord with religious beliefs’; and 18 percent defined ‘ethical’ as what ‘conforms to the golden rules’ (in (Velasquez, 1992)). In popular usage the term ‘ethics’ has a variety of different meanings and businessmen do not feel comfortable with such a term.

Ethical investment, by referring to ‘ethics’, implies a moral judgement, that is right or wrong, good or bad, better or worse, ought to be or not to be. It expresses values. These judgements are applied on the basis of some explicit or implicit standards that require, prohibit, or allow specific kinds of behaviour. Ethical investment raises questions concerning whether or not corporations’ decisions and behaviour violate any moral standards. It does not automatically mean that the corporation is behaving immorally but only that there is some reason to examine more closely whether or not it does or does not conform to some moral standards.

Ethical investment does not define what is 'ethical', it concentrates on how moral standards apply to business policies, practices and behaviour. Business organisations are embedded in a larger societal context. They are a subsystem of the larger social system. As such they cannot exist without the tacit consent of the larger system. The conduct of business raises a number of ethical issues, for example because they are multinational corporations operating in several nations, because they use raw materials. The process of ethical investment is a way to assess corporations' behaviour against some moral standards. The questions are: What are the standards? and How are these standards translated? Figure 20 shows an example of moral reasoning. The judgement that the company is unjust is based on a chain of reasoning that appeals to a moral standard.

Moral standards →	Factual information →	Judgement
Example: A company is unjust if it does not treat minorities and whites equally	Example: Corporation A black people are paid less compared to whites.	Example: Corporation A is not unjust (discrimination practice).

Figure 20 – Example of ethical reasoning (extracted and adapted from (Velasquez, 1992))

The history of ethical investment shows that churches have dominated the movement for a long time. The moral standards were clear, they referred to religious standards. However, in the 1970s and 1980s citizen or environmental groups joined the movement, followed later by very diverse types of investors – especially when mainstream banks and pension funds started to show interest for such funds. This change implied a change in the moral standards used. Citizen groups did not refer to religion but to human rights for example. Reference standards became diverse and ethical justifications not always clear. It led Schwartz (2003) to question the foundation of ethical investment: "If the ethical investing movement were to be honest and forthright, they would not label their screens as "ethical" at all. They are simply screens developed with the intention of reflecting intended investor's social, religious, or political attitudes or beliefs, and nothing more. To be considered ethical screens, the behaviour in question must derive support beyond the moral standard of cultural relativism." (Schwartz, 2003).

In their article, Anderson *et al* (1996) ask: "*What has "Ethical Investment" to do with Ethics?"*(Anderson et al., 1996). They question whether or not ethical investment funds have the right to use the term 'ethical'. The article does engage with the ethics of ethical investment and is strongly critical of current ethical investment practice in the UK. The authors argue that ethical investment is 'not very good ethics'. They even claim that ethical investment does not deserve the title 'ethical'. They critic the oversimplistic way in which ethical investment consider ethics: "It is a simplicity which ill fits them for ethical work" (Anderson et al., 1996). Investing ethically cannot be a straightforward matter. The issues involved require to be disputed and are often complex but ethical investment has a tendency to reduce complexity, to focus on particular causes and elevate them into absolutes, disregarding difficulties and counter-arguments. According to the authors 'ethical' has become a 'trade' name for financial companies.

Other authors like (Irvine, 1987), (De George, 1990) and (Sorell & Hendry, 1994), and to a smaller extent (Sternberg, 1994) and (Boatright, 1999) have also addressed the ethical dimension of ethical investment but with another perspective.

Irvine (1987) deals with the notion of the ethics of investing. He examines the ethical implications of investing that stem from the non-contractual obligations of investors. Distinguishing the ethical dimensions of investing from aesthetic and egoistical concerns, he argues that two popularly accepted principles, the Evil-Company Principle – which suggests that one should never invest in an evil company – and the Tainted-Profits Principle – which suggests that one should never profit from the wrongdoing of others – are inadequate guides to ethical investing. In their place, he proposes what he calls the Enablement Principle which suggests that one should not invest in such a manner as to enable others to do wrong. Although his arguments are vulnerable (see the reply from (Lamier, 1997)), Irvine offers an interesting discussion on what is morally wrong in connection with ethical investment. He also discusses how investors can affect a company's ability to conduct its business – through two issues the Old-Stock Objection and the Small-Purchase Objection. Irvine concludes in both discussions that investors have, albeit indirectly, a real potential to influence the way a company conducts its business.

De George, Sorell and Hendry and other articles are concerned with the responsibilities of shareholders towards corporations. De George (1990) discusses whether shareholders are responsible for the company's activity as part-owner of the company. He claims that "shareholders cannot be held morally responsible for what the firm does since the shareholder is in fact very distant from the causal relations between an action of the corporation and its effects - but this does not relieve shareholders of all moral responsibility" (De George, 1990). Indeed he argues that if a "company has a policy of engaging in unethical practices, then no one can morally support its activities through the purchase of stock" (De George, 1990). De George's account of ethical investment is generally a normative one mainly asserting what ethical investment should involve.

Sorell and Hendry (1994), like De George, open the discussion with the responsibilities of shareholders. Unlike De George, they claim that shareholders are not the owners of companies (Sorell et al., 1994). However, they accept that shareholders do have responsibilities for companies. Their discussion is not related to the kind of issues ethical investors are concerned about but to more general considerations of, for example, the duties of loyalty owed by shareholders to companies in the event of a take-over bid. Another important issue raised by Sorell and Hendry (1994) is the question of whether the ethical concerns of ethical investors conflict with their other objectives or duties as shareholders. They ask the following question: “Aren’t the interests of ethical investors in things other than owner value and nothing else?“ If so, it questions ethical investment as an ethically appropriate activity. Sorell and Hendry argue that it is possible for an investor to combine long-term owner value and ethical goals. Others, like (Frenkel, 1998), (Hart & Ahuja, 1996), (Waddock & Grave, 1997) or members of the Tomorrow’s Company (Tomorrow's Company, 1995) support the same argument. The basic argument is that socially and environmentally responsible business is often good business (win-win situation). Indeed most of the ethical or social funds, such as Eco Performance Portfolio from SBC (Switzerland) or the Environmental Value Fund form Storebrand Scruder (Norway) state clearly that by investing with ethical considerations, one should expect a higher than average long term financial performance. However conflicts between ethical and long-term owner value objectives may well arise. Sorell and Hendry (1994), although they do not give a full answer, suggest that it involves deep questions about “how far the obligations that derive from the roles one has, including that of investor, can free one from the obligations that one is under as a human being”. Through their answer Sorell and Hendry imply that one may regard one’s wider ethical responsibilities to be over-riding the narrow ones due to a particular role. If so, ethical investors may claim that their more general ethical responsibilities are more important than their narrow concerns as shareholders. Sternberg (1994), asking the question “What if owners want something other than maximum financial value from their organisation?” gives a somewhat similar response: “Owners are perfectly entitled to devote their organisations to all sorts of ends. To the extent that they pursue something other than maximum long-term owner value, however, they are simply not engaging in business”. According to Sternberg, shareholders have certain responsibilities, particularly to other shareholders. She suggests that the main reason to be a ‘responsible shareholder’ arise from the requirements of prudence to insure that the companies the shareholder invests in are well managed. However Sternberg places the maximisation of long term owner value as the defining purpose of business. For her, ethical investors and ethical consumers should not divert business from its primary purpose, but instead commit their resources to other charitable ends.

Literature on ethical investment does not directly address the issue of ethics or the ethical questions raised by ethical investment. Discussions focus essentially on methodology (how and what to do) rather than ideology. Authors and practitioners have had difficulties to engage in analysing the definition of the term ‘ethical’. The history of ethical investment links it to churches. It was associated to 'sin' stocks and avoidance strategy (the first generation of screening). Ethics was reduced to religious moral standards. The new wave of ethical investors did not refer to the same standards, and over time the ethical investment movement shifted from a direct reference to ethics to concepts like sustainable development and corporate social responsibility. The next sections 5.4.2 and 5.4.3 present these two concepts.

5.4.2 Sustainable development

The roots of sustainable development go back to the early 1970s. Hajer (1995) provides an interesting analysis of the emergence of the concept focusing on the institutional process out of which the new discourse of ecological modernisation derives social support. Environmental concern really emerged in the early 1970s. In 1970, the Organisation for Economic Co-operation and Development (OECD) launched an Environment Committee which functioned as a think-tank for ideas that sprang up in academia (Hajer, 1995). In 1972 an important event brought sustainable development on the political scene. The United Nations held a conference on the Human Environment in Stockholm around the theme 'Only one Earth'. At the time, this was the biggest UN conference ever held. The same year saw the publication of a report raising the environmental paradigm: Limits to Growth from the 'Club of Rome'. The report discusses whether or not continuing economic growth would inevitably lead to severe environmental degradation and societal collapse on a global scale (Meadows, 1972; Pezzey, 1992). For the first time the environmental issue was portrayed as global crisis.

In 1980 UNEP published a report, 'World Conservation Strategy', the first to officially discuss the concept of 'sustainable development' as such (United Nations, 1980, World Conservation Strategy, United Nations, New York). This report followed up on ideas proposed by nature conservation organisations such as WWF and the World Conservation Union (IUCN, formerly the International Union for Conservation of Nature and Natural Resources). In this report the concept of conservation was clearly defined, the emphasis being on its human dimension. It consisted of three factors: maintaining ecological processes, preserving genetic diversity and utilising species and ecosystems in a sustainable fashion (IUCN, 1998).

In 1984 the OECD held a conference on Environment and Economics that has been influential in the development of the concept (Hajer, 1995). The economy and the environment were presented as compatible through the concept of 'pollution prevention pays'.

In 1987, the World Commission on Environment and Development (WCED) published the report 'Our Common Future' also known as the Brundtland report. It was the result of negotiation within an international group of politicians, civil servants and experts on the environment. It brought the concept of sustainable development into the global debate. The definition scope was enlarged, integrating social responsibility and especially poverty. According to the report, sustainable development would enable the eradication of poverty in developing countries on the one hand, and on the other the creation of a new balance between material wealth in developed countries and the preservation of ecological systems as the basis for life. The definition in the Brundland Report, today the most widely recognised and used, is the following: sustainable development is a "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). According to the Brundland Commission, sustainable development is not restrictive. Its only restriction relates to the prevailing state of technology and the social organisation of natural resources and the capacity of the ecological system to absorb the effects of human activity. No economic restrictions were mentioned at that time. The Commission furthered its definition of sustainable development by emphasising the notion of change: "In essence, sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet needs and aspirations" (WCED, 1987). It is not a goal; it is a social process in which the principles of sustainable development are taken as starting point for assessing ecological, social, and economic aspects of decisions in an integrated way through interactive learning processes (Carley & Christie, 1999; Roome & Clarke, 1999).

The next major event that "cemented [the concept] into the international political arena" (Bebbington, 2001) was the 'Earth Summit' held in Rio de Janeiro in 1992. During the United Nations Conference for Environment and Development (UNCED) 180 participants agreed on the fact that environment and development were interdependent, indivisible and equal in rank. The Earth Summit stated that all human activities, and indeed social prosperity in its traditional narrow sense, should be subsumed under the principle of environmental sustainability. Development and social prosperity can only be achieved to the extent that the natural resource basis is not endangered (principle 15 of the UNCED Declaration). However, the Earth Summit has been criticised for being a failure, especially because it did not discuss key structural features of unsustainability (Hildyard 1995 in (Bebbington, 2001); see for more critics (Miller, 2002)).

First of all, sustainable development is a confusing concept. In his 1992 paper, Pezzey provides a list of 33 definitions of sustainable development (Pezzey, 1992) and reports in 1997 to have found five thousand (Pezzey, 1997). It is however widely recognised that sustainable development is about balancing three important dimensions: economic, social and environmental. This has been translated into 'People, Planet, Profit' (the three Ps) or the 'triple bottom line' (Elkington, 1997). Sustainable development is also described in terms of vision expression, value change, moral development, social reorganisation or transformational process toward a desired future or better world (Gladwin & Kennelly, 1995). The Brundtland definition provided room for interpretation. As a consequence, the notion of sustainable development remains fuzzy, elusive, contestable and/or ideologically controversial (Gladwin et al., 1995; Levin, 1993).

Secondly, sustainable development has developed within the context of the United Nations (Bebbington, 2001), although environmental NGOs such as IUCN and World Wide Fund have also played an important role (see in Hajer, 1995). Hajer's study shows that in the 1980s the concept of sustainable development took a new turn to take a more economic-oriented discourse. This has been one of the main arguments of the OECD which already in the mid-1980s emphasised the need to look at economic and environmental issues as essentially intertwined. However, the understanding of sustainable development has also been influenced by corporations. According to Hoffman, "corporations have seized on sustainability as an issue they can handle themselves" (Hoffman, 2001). They have developed task forces, established vice presidential positions, and joined government studies in order to address the agenda and business implications of sustainability. The confusion about the concept of sustainable development helped them to play an important role in shaping it. Their views have been central especially because they brought a certain pragmatism to the concept which allowed developing standards (for example the Global Reporting Initiative).

5.4.3 Corporate social responsibility

Corporate social responsibility (CSR) has been the subject of innumerable articles, books, papers, and forums. Views on CSR have evolved over time. Four main periods can be distinguished.

The twenties

At the start of the nineteenth century the activities of the business community were mainly separated from the remainder of society. The drive for profit and growth was unrestrained. By the beginning of the twentieth century there was some awakening among the business community to human rights and a growing recognition that people and land were assets to be preserved rather than just commodities to be used.

According to Heald, a not 'clearly-formulated doctrine of social responsibilities' emerged in America in the twenties (Heald, 1961)]. Managers such as Gerard Swope of the

General Electric and E.A. Filene of the TCF[6], acknowledged that their growing interest in harmonious relations with employees, stockholders, customers and the public resulted quite as much from the exigencies of profit under changing economic conditions as from moral or social concerns (Heald, 1961). Heald argues that this new trend was partly due to the professionalisation of the new generation of independent corporate managers. There were at that time a growing number of men who attended business and professional schools. Regulations, trade associations and schools were starting to promote ethics in business. One of the most significant consequences of this development was the growth of the corporate philanthropy area.

From the postwar period until the sixties

Although it was not until the late 1970s that interest in corporate social involvement and responsibility became a phenomenon of general interest, a significant period in the history of corporate social responsibility is the postwar years.

After the Second World War, some notable activities and discussions about the role of business in society in Europe were started. In particular, it was those business leaders with religious convictions that helped promote concerns about social responsibilities of business and the need for ethical considerations in commerce (Marinetto, 1999). In the postwar years, Christian business leaders held a special role in the history of corporate philanthropy. George Goyder, involved in Christian Frontier Council, wrote two seminal texts, The future of Private Enterprise (1951) and The responsible Company (1961). The basic theme of both texts was that companies are responsible to a wider constituency than just their shareholders. Goyder argued that workers, consumers, the local community and society at large all have a stake in the private company (Marinetto, 1999).

At the beginning of the 1950s, the dissociation of business from the church was increasing due to changes in capitalism. At that period the ownership of business started to change as well. Financial institutions were becoming involved as both investors and shareowners in private companies. By the end of the 1950s, there was a change in the ownership of companies. The trend went from one major shareholder proprietorship to an increase of minority share ownership. There was a separation between ownership and control. Companies are controlled through what John Scott terms a 'constellation of interests'. (Scott, 1980). Modern corporations did not disregard socially responsible activities. But it was mainly in terms of charitable gifts. A study by the Economist Intelligence Unit in 1957 showed that the majority of British firms claimed an interest in

[6] The Century Foundation, formally the Twenties Century Foundation: Research foundation that undertakes analysis of major economic, political and social institutions and issues. TCF was founded in 1919 and endowed by Edward A Filene.

philanthropy but only 12 out of 381 had definite policy guidelines (Economist Intelligence Unit, 1957).

In the mid-sixties, the main issue or fear was the automation of the production processes, that might cause unemployment problems. This exerted considerable pressure on corporations to continue providing jobs. This consideration introduced an entirely new dimension of social responsibility (Heller, 1976a).

From the seventies –to the nineties

Corporate social responsibility has strong Americans roots. It has been often presented in the 1970s as a challenge to Friedman's view. This perspective changed in the 1980s/1990s, CSR and Friedman's view were not presented as opposite but rather complementary views.

Concerns for corporate social responsibility rose significantly in the seventies. This coincided with the increased concern for a corporation's image. In 1976, the OECD issued the first version of the Guidelines for Multinational Enterprises. The guidelines provide principles and standards for responsible business conduct. In the late seventies-early eighties companies had to adapt to an ever-increasing demand for information from the public. In 1984, Edward Freeman published his seminal work *"Strategic management: A stakeholder Approach*", which has played an important role in changing the view on companies using the stakeholder perspective.

If American corporations were prepared to tackle major social problems by the 1960s, European corporations showed the beginning of a modern era of corporate social activism in the early 1970s. "At the mid-point of the seventies there could be no question but that the pressure of social responsibility on the corporation had increased, was increasing and ought to go on increasing" (Heller, 1976b).

Business spokesmen and academics penned several articles and texts on the subject of social responsibility between 1973 and 1976 (see a review in (Marinetto, 1999)). Several studies carried out in the 1970s confirmed the increasing awareness among companies of corporate responsibility (Melrose-Woodman & Kverndal, 1976; Webley, 1974). In 1975 Learson, then President of International Business Machines Corporation, said: 'In the future, a corporation will be judged as much by its social usefulness as by its ability to make a profit' (extracted from (Hargreaves & Dauman, 1975)). In the mid-seventies, the belief quickly spread that management must include in its objectives discharging its responsibility to the community just as it had accepted its responsibilities to its shareholders, customers and employees (Hargreaves et al., 1975).

The seventies were also marked by the rise in power and militancy of the trade unions and the emergence of consumer groups. One of the most powerful and significant consumer groups in the US was led by Ralph Nader. This period saw many external groups starting to put pressure on corporations and criticising business behaviour.

In the 1970s the main elements of corporate social responsibility were charitable and community donations, and unemployment. In the 1980s corporate social involvement expanded. In a survey of 1975 by the UK Public Relations Consultants Association in which one thousand of Britain's leading executives were asked what the phrase "social responsibility" meant to them, employee came up as the main social responsibility, after charities and community.

Corporate social action during the 1980s was not confined to philanthropic giving schemes. A characteristic feature of this period was the efforts by government and sections of the private sector to actively involve business in society.

It is also during this period that the concern for the natural environment came up within corporate social responsibilities. There was a growing realisation that production, distribution and consumption were having an increasing impact on the environment.

End of the 20th century – beginning of the 21st century

Today, corporate social responsibility is being promoted both at the national and international levels. There are various international initiatives such as the UN Global Compact (2000), the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (2000).

Norms and values have changed and are developing through society. Citizens no longer refer to government or churches to assess the moral content of social action. There is a new public arena in which norms, values, social expectations and objectives for CSR evolve in an interaction between various parties, including civil organisations, trade unions, and firms. Corporations have gained in power, but new actors have also entered the CSR arena.

One of the characteristics of the end of the century is the emergence of the concept of sustainable development at the heart of the corporate social responsibility debate. Both concepts seem to have become inseparable. Stigson, Executive Director of WBCSD, says that "businesses should integrate social responsibility in their attitude, and to achieve that they should use Sustainable development as the route" (Stigson, 2001). The European Commission, when communicating on sustainable development, emphasises the importance of corporate social responsibility.

All institutions such as governments and European bodies are providing their own definitions and conceptions of corporate social responsibility. In 2001, the European Union published the so-called 'GreenPpaper' on 'promoting a European framework for corporate social responsibility'' (European Commission, 2001). In March 2000, the

European Council asked companies to take and state their social responsibility regarding best practices for lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development. In the Green Paper the European Commission defines corporate social responsibility as a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. Via this document, the European Commission hopes to promote a new framework for the CSR based on European values. The report makes a clear reference to financial institutions as one of the factors driving companies towards CSR. This Green Paper should be followed in 2002 by an action programme devoting special attention to the preparation of voluntary European guidelines for company reporting. The GRI initiative will probably be used as reference for the guidelines.

CSR refers to the role of corporations in society and to corporations' moral responsibilities (see (Wempe, 1998) for a discussion on morality and corporations). It is mainly concerned with the ability of firms to respond to social pressures as the following definitions point out: "The first (definition) is that any organisation has a responsibility for planning and managing its relationships with all those involved in or affected by its activities, or with those who, in turn, can affect the ability of the organisation to operate effectively and achieve objectives. For relationships to be meaningful, there must be a dynamic response, sensitive to changing trends and attitudes. So a second definition of social responsibility is simply that it is the anticipated, planned and managed response of an organisation to social and political change. Indeed this theme of the management of change is fundamental to any practical discussion on social responsibility." (Hargreaves et al., 1975); socially responsible firms are "those companies which monitor and evaluate environmental conditions which focus on the demands of various stakeholders" (Ackerman, 1975).

CSR was initiated by the business sector. It was a response to the increasing criticism corporations were receiving. According to Heller (1976) business has become unpopular and feels compelled to make strenuous efforts to become less unpopular. He argues that there has been a growing concern for the corporation's image as perceived by the community, both through corporate actions and the words of its spokespersons, as well as a growing sensitivity to criticism from outside, leading to more strenuous efforts to justify the corporation's existence and activities (Heller, 1976b). He also noticed the rise of the consumerist movement and its influence in raising critical standards in the media. Ralph Nader was one of the key actors in the rise of the consumer movement. He attacked General Motors, and in particular the Corvette car, in order to obtain legal action to enforce behaviour changes.

CSR has been an important instrument to show that the business community does not only seek profit – as argued by Friedman (1962) – but also the well-being of its environment and society in general. Through CSR the business community argues that firms (should) contribute to the welfare of people and planet as its own welfare. Therefore two important elements are crucial to CSR. Firstly companies are in relation with 'stakeholders', they act with, and on, stakeholders. CSR points out the significance of the relationship of the company with its stakeholders and society at large. The second element is the long-term perspective. CSR underlines the need to think not only for the present but also for the future.

CSR responds to the demands of ethical investors and more generally to a variety of social, environmental and economic pressures. It is a way for corporations to show what they are doing to contribute to a better society and a cleaner environment.

5.4.4 Conclusion

The roots of ethical investment are deeply connected to churches and religious moral standards. Reference to 'ethics' was for a long time a way for ethical investment to distinguish itself from regular investment funds. It did not mean that regular funds were amoral but that they were not in line with ethical investors' moral standards. 'Ethics' was a distinctive sign and referred to clear norms. However, 'ethical' has shifted away to be replaced by sustainability and corporate social responsibility. The shift did not happen suddenly. For a while the ethical investment movement was lacking a clear guiding reference. Since the end of the 1990s and beginning of the 2000s most of the ethical funds refer to sustainable development and corporate social responsibility. The change is visible in the name: it used to be 'ethical investment' and became in the 1990s 'sustainable investment' or 'socially responsible investment'. But the screening process also changed from exclusionary or avoidance to a benchmark based on People, Planet and Profit. This shift has allowed the ethical investment movement to avoid references to the church and build a new image and a new rationalisation.

The 'ethical' dimension of ethical investment has been reduced to religious moral standards. Moreover ethics is a term that businessmen are not always fond of. It raises numerous questions about what it is and what it means.

Sustainable development and CSR also deal with moral standards — moral standards are " matters that are of serious consequence to our human well-being…[i.e.], concerned with behaviour that can seriously injure…human beings" (Velasquez, 1992). Sustainable development and CSR are the translation of certain ethical norms which have resulted in a number of guidelines. Both concepts have been approached in an instrumental way, providing responses rather than raising questions. By referring to sustainable development ethical investors take this translation for granted.

Coming back to Figure 20, the factual information does not refer to the moral standards but to a translation of moral standards. By referring to sustainable development and CSR, ethical investors have added a link between the moral standard and the judgement. The focus has shifted from identifying or explaining the moral standards on which their judgements rely to producing evidence that a given policy or action is conform to, or violates the standards. The moral standards have become unspoken and assumed. Ethical investors have become disconnected from the ethical issues.

5.5 Changes in the ethical investment field

This chapter investigated the institutional and international contexts of ethical investment. Several characteristics come out of this analysis and highlight some changes within the field of ethical investment. Some of them strengthen elements already pointed out in Chapter 2.

Ethical investment has become an *international phenomenon.* Triodos case already highlighted this aspect through the increasing number of relationships with international actors. In this chapter, figures show that during the last decade ethical investment has spread over many countries from the US and Europe to Asia and Australia. The UK and US remain the two dominant countries in terms of number and size of ethical investment funds.

Ethical investment has developed into a *commercial project*. The roots of ethical investment are in the US. In its first form, it was mainly connected to religious groups who did not want to support specific activities. They were applying negative criteria in order to avoid what they called the 'sin stocks'. In the 1970s, still in the US, a new form of ethical investment started. It became a more political tool to protest against companies' misbehaviour. This tool came to Europe in the 1980s, which marks the beginning of a new form of ethical investment. The first UK ethical investment fund, Friends Provident Stewardship (1984), but also a large number of the funds launched after the 1980s-1990s, do not aim at protesting. They are primarily financial products and ought to be financially profitable. The 1980s-1990s mark an important shift in the history of ethical investment from a religious and contest activity to a commercial project.

Ethical investment funds have diffused within the financial sector. The number and size of ethical investment funds has increased significantly, especially during the last decade. Mainstream financial institutions, banks but also pension funds, have started to set up ethical investment funds. This characteristic explains the increasing number of clients of Triodos Research between 1997 and 2002 that was pointed out in Chapter 2.

New types of actors have emerged in the field of ethical investment, as was noticeable in the case of Triodos. New organisations have been established for the purpose of ethical investment. They have specific functions such as screening companies, rating organisations for example EIRIS (UK) or KLD (US), or gathering and diffusing information for example UK SIF or ASrIA (Asia). These last two characteristics – the diffusion of ethical funds and the setting up of new types of organisations – suggest an increase in the density of interorganisational contacts and a clearer structuration of the field.

In the 1990s there emerged a *new institutional context* encouraging the development of ethical investment especially among mainstream financial institutions. Non-governmental, governmental and intergovernmental organisations started to point the finger at the financial sector because of its non-engagement towards sustainable development. For example in 1992, UNEP set up a special unit for stimulating the greening of the financial sector; in 2000 the UK government voted a new regulation requiring pension funds to disclose their SRI policy; in 2001 the EU published its Green Paper on CSR. This new institutional context created coercive pressures on financial institutions to participate to sustainable development.

The criteria used for ethical investment present some *signs of homogenisation*. Over the years ethical funds have tended to increasingly use similar criteria, especially from the exclusionary type. This is linked to the elements of formalisation and standardisation noted in Chapter 2.

Ethical investment has *changed identity* from an ethical oriented movement to a CSR-related activity. Sparkes (2001) made it very clear when she wrote “ethical investment is not a moral campaign”. The first generation of criteria were based on an exclusionary approach and referred to some ethical principles. However the third, and today most widespread generation focuses on comparative criteria and refers to sustainable development and CSR concepts. The values and meaning carried by the ethical investment community have changed. Ethics did not fit into the new commercial approach of mainstream financial institutions. As a consequence, criteria changed from a negative approach based on punishment — exclusion of the bad companies – to a positive approach based on reward — the best companies are selected. This suggests a mimetism between the ethical investment and CSR movements but also the rallying of the field of ethical investment to another field.

The field of ethical investment reveals also a number of *areas of unclearness and non-agreement*. There are intense debates related to the definition of ethical investment and no agreement as to what ethical investment is and how it should be performed. Criteria, in spite of a move towards homogenisation, remain diverse and multiple. This suggests that there is not yet a shared definition of the field of ethical investment.

This chapter also underlines *possible conflicts* between the values carried by the ethical investment community and the values of the financial sector. Historically ethical investment is built on very strong ideologies, first religious and then political. In the 1980s/1990s it changed into an apolitical activity and a commercial project where profitability became a prerequisite for its existence. This new direction may conflict with the initial motives and values of ethical investment. Another area of conflict is to be found within the investment community. Investing is a highly institutionalised activity with its own rules, norms and values. The arrival of ethical investment is a disturbing element for financiers with new values and new norms. This suggests conflicting institutional logics within the field of ethical investment. Institutional logics are the socially constructed rules, beliefs and practices by which organisational and social actors give meaning to their social reality (Scott, 2001). They are both material and symbolic, and constitute a set of implicit values and assumptions about how organisational reality should be interpreted and what constitutes appropriate behaviour (Friedland & Alford, 1991; Rubin, 2001). Logics are acquired in the course of historical development (Scott, 2001).

This chapter focused on the macro level of analysis. It is in this institutional and international context that ethical investment emerged in the Netherlands at the beginning of the 1990s. The next chapter will turn to the meso level of analysis and investigate more particularly the Dutch case.

Chapter 6 – Institutionalisation of ethical investment: the Dutch case

6.1 Introduction

Chapter 5 presented the international and institutional contexts in which ethical investment developed. It highlighted some characteristics of the organisational field. The activity developed into an international phenomenon which has significantly diffused within the financial sector. The form of ethical investment has evolved over time: it has shifted from being an activist activity to a commercial project. Along with this shift a number of changes have taken place: emergence of new actors, signs of homogenisation, standards, and change of identity from an ethically-oriented movement to a CSR-related activity. But the chapter also pointed at some areas of unclearness, non-agreement and conflict that indicate that the field is in formation.

Chapter 6 focuses on one specific country, the Netherlands. The Dutch ethical investment case started at the beginning of the 1990s. The chapter explores the institutionalisation process of ethical investment. Section two and three describe the diffusion of ethical investment in the Netherlands from a niche to a mainstream activity, the context in which it developed, and the different ethical investment funds. Section four investigates the understanding of and the practices of financial institutions in the field. Sections five and six focus on the actors in the field: identification, roles and relationships. The seventh section explores one specific element of the institutionalisation process namely professionalisation. The chapter concludes with an analysis of the institutionalisation process of the ethical investment field in the Netherlands.

6.2 Diffusion of ethical investment

The first form of ethical investment in the Netherlands appeared in the 1970s. The Hollandsche Koopmansbank mainly used to manage labour unions' funds that were closely related to the socialist and social democrat political parties in the Netherlands (P3). They applied some sort of exclusionary criteria driven by a strong political background: they excluded from their portfolio any companies involved with countries with an apartheid regime (South Africa), or with companies where human rights were violated (Chile, South Asia). This type of screening started at Hollandsche Koopmansbank because of a demand from their clients.

In 1990, Triodos Bank launched its life insurance, MeerWaarde Polis, based on social and environmental screening (see Chapter 2). This initiative was mainly internally driven. Around the same period an organisation called Memo, composed of a council of churches, congregations, environmental groups and including the managing director of Triodos Bank, started to think about launching a trust fund that would respect their values. As a result an investment company, ABF, was created to manage the ethical fund (called Het Andere Beleggingsfonds), which was launched in 1991. At that time there was little experience in Europe of ethical investing. Founder members of the fund looked mainly at US practices in order to develop their own methodology and screens. From 1991 till 1998, ABF conducted the social, environmental and financial screening themselves. However they soon realised that they needed a 'professional' research organisation (P1). In 1998, they asked SNS Asset Management to carry out the social and environmental screening.

The second ethical fund was created in 1993 by ASN bank, Aandelenfonds. The bank was asked by its clients to develop an investment fund that could reflect the bank's values. According to the fund manager, clients really wanted to invest on the stock market, because it was financially more attractive, but they were also becoming more and more conscious of the power of large companies in society (P3). They said to ASN Bank: "*we want to choose where to invest. We don't want to put our money anywhere*." ASN Bank had already some experience with this kind of investment because they used to manage investment for the Hollansche Koopmansbank – which is now part of SNS asset management (Real Groep, the insurance company which owned the Hollansche Koopmansbank, and ASN Bank merged in 1997). As ABF had done, ASN looked at what was going on abroad, especially in the US and UK and decided to set up its own research group for the screening of companies. The fund manager describes the first screening as follows: "*we took a paper and we wrote what we wanted to know*" (P3). They contacted trade unions, NGOs and other types of organisations in order to get the information they needed according to their criteria. From the beginning they decided to send questionnaires to companies. Companies were very surprised and were asking ASN: "*What is that? Why do you want to know that?*" (P3). Companies were not used to being asked questions about the way they were handling human rights, environmental problems, etc. At that time business environmental or sustainability reports were very rare. It was very difficult for fund managers and analysts to get the right information. But "*at that time questions were less detailed and less numerous*" (P3). Little by little the research group grew and became more structured and more professional.

In 1996 VBDO, The Dutch Association of Investors for Sustainable Development was created. This organisation was partly initiated by the financial institutions already active in ethical investment (Triodos, ABF, ASN and SNS) and partly by the government (see Chapter 2, section .3.5.5). VBDO plays a central role in the Netherlands, enabling its members, which today consist of most of the Dutch banks, to regularly meet and discuss matters related to ethical investment.

In 1997, Triodos Bank launched the third Dutch ethical investment fund, the MeerWaarde Fund. Like ASN and ABF Triodos looked at practices and experiences abroad (see Chapter 2). They also decided to carry out the research themselves in order to develop criteria that fitted the bank's values. The bank immediately realised that screening could not be improvised. A good, thorough, systematic, and structured research for the selection of companies was necessary. Therefore the Triodos Research department, entirely devoted to screening, was created in 1997.

ASN and Triodos are both specific type of banks. They have very strong social and environmental commitments. They are both what is called social banks at the margin of mainstream banks. They criticised the lack of transparency and the discriminatory system of financial institutions. They launched an ethical fund not only as a financial product but also as a way of protesting against the established financial system and (mis)behaviour of corporations. For both banks, ethical investment was a way to invest without infringing their organisational values. According to the fund manager of ASN there were two main reasons for launching an ethical investment fund: firstly because clients were asking for it, and secondly because it was a new instrument "*to make a difference*" (P3). ABF, ASN and Triodos have been the pioneers of ethical investment in the Netherlands.

In the years1998-2000 ethical investment grew slowly in the Netherlands. But around 2000 it changed and became a product offered by mainstream banks. During the years 2000 and 2001, 9 new funds were launched. As of November 2002, there were 13 ethical investment funds in the Netherlands (see Figure 21). Note that the increase is not only due to the entrance on the market of new providers but also to the splitting of existing products, such as the Triodos MeerWaarde Fund. In 2002, most Dutch banks proposed an ethical investment fund.

At the end of 2000, ethical investment totalled more than Euro 828 million. Ethical investment has gained a market share relative to total Dutch investments. It accounts for more than 1.2% of the total investment market (Bauer, Koedijk, & Otten, 2002). However this is still very small compared to the total market. It remains a niche sector. Robert Rubinstein (of the Holland-based ethical consultancy Brooklyn Bridge) said, "Sure the market is growing, but it's still pathetically small. The big financial institutions all offer some kind of ethical product, but that's it. Many of them don't bother to promote or really sell it. They just seem to be offering them for the sake of it. Most big financial houses still have less than one percent of their assets in ethical vehicles, and the biggest market player is still ASN Bank, the oldest, with 35 percent market share. A long process of cultural change lies ahead. At the moment, big financial institutions see SRI as a reputational issue. They need to start seeing it as a strategic investment issue. Until they are convinced, SRI will not develop sufficiently" (extracted from (McCallin, 2003)).

In parallel to the increase in funds, a number of organisations emerged: in 1999 Brooklyn Bridge was launched, a consulting organisation whose activity focuses on SRI (advice to companies, fund managers and individuals), and that organises the yearly Triple Bottom Line Investing Conference; in 2000 Triodos Research became the official Dutch rating organisation; in 2000 also another consulting organisation started, Your Good Choice specialised in SRI; in 2002 VBA, the Dutch Analysts Association, started a working group on SRI. Websites devoted to ethical investment were created such as Duurzaam vermogensbeheer and Duurzaam-beleggen. And a Chair in Socially Responsible Investment was open at the Institute for Responsible Business (EIBE) at the University of Nyenrode.

In 2000 also, new types of investors showed interest in ethical investment. Two major Dutch pension funds, PGGM and ABP, announced that they would invest a portion of their assets in a sustainable way. For both funds, the main, essential objective is to have out-performing portfolios. If not, such a strategy may be reconsidered, or even excluded. In order to stimulate other Dutch pension funds, Your Good Choice initiated an organisation for pension funds called SODP (Foundation for Supporting Sustainable Pension funds). It aims at helping pension funds that want to take a further step in implementing sustainable criteria in the core asset process (See Chapter Triodos, section .4.3). The number of pension funds integrating social and environmental screens in their investment policy is soon expected to increase (see (Hummels & Timmer, 2003)). And lately, in 2002, insurance companies have drawn up a code of conduct addressing ethical investment issues in 2002. The code has not yet been applied.

The diffusion of ethical investment in the Netherlands has been rather fast. It started at the beginning of the 1990s on the initiative of social banks and within a decade it had spread to all the major banks (Table 29 for a list of the ethical investment funds in the Netherlands in 20012). The Dutch case can be placed in the 1990s shift described in the previous chapter. It started as a commercial project although at the beginning it was balancing between two dimensions: activist tool and financial product. However, figures show that at the beginning of the 2000s ethical investment had become part of mainstream financial products.

Financial institution	Fund	Year of launch	Asset (Million Euro) 1/01/2002
Investment funds			
ABF/ASN bank	Het andere beleggingsfonds	1991	184
Triodos bank	Triodos MeerWaarde Mixfonds	1997 May	37.9
	Triodos MeerWaarde Aandelenfonds	2000 October	15
	Triodos MeerWaarde Obligatiefonds	2000 October	9.2
ING Bank	ING Duurzaam Rendement Fonds	2000 May	61
ASN	ASN Aandelenfonds	1993 March	298
	ASN Obligatiefonds	2002 January	45
	ASN Mixfonds	2002 January	185
Robeco Groep	RG Duurzaam aandelen Fund	1999 February	145
SNS Reaal Invest	SNS Duurzaam Anndelenfonds	1998 November	27.6
ABN AMRO	ABN AMRO Duurzame Wereld Fond	2000 May	60
Postbank	Postbank Duurzaam Aandelen Fonds	2001 March	9.63
Aegon	Aegon Aandelen Duurzaam	2001 October	24.4
Kempen Capital Management	Orange SeNSE Fund	2002 November	Not available
Private banking			
Fortis Bank	Mees Pierson	2001	Not available

Table 29 - Ethical investment funds in The Netherlands, 2001 (Molen, 2002))

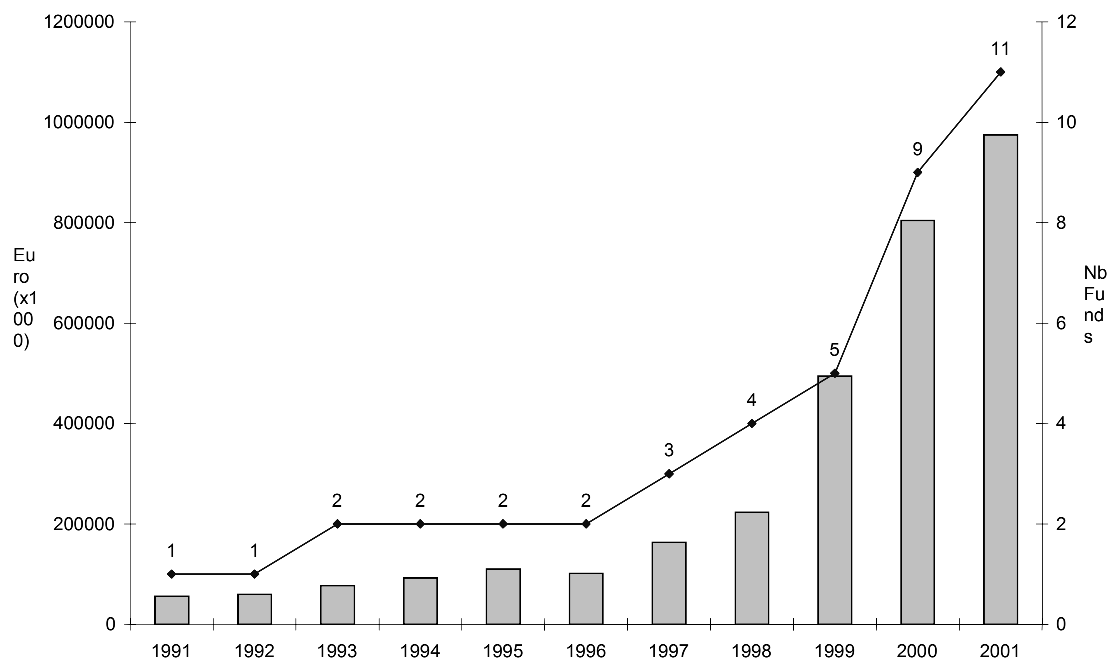


Figure 21 - Ethical investment in The Netherlands (in thousands of guilders and number of funds) (data source(VBDO, 2002))

6.3 Financial institutions: initiators of ethical investment in the Netherlands

Several elements in the previous section provided evidence that ethical investment in the Netherlands has been initiated by financial institutions. This makes it a unique case in the international context, and a very different one from the US and UK cases examined in Chapter 5.

In the 1990s, ethical investment started in the Netherlands on the initiative of a small group of social banks. This same group supported the creation of the Dutch Organisation for Sustainable Development (VBDO). And one of the banks of this group launched the Dutch rating organisation Triodos Research. Those two organisations, VBDO and Triodos Research, played a significant role in diffusing ethical investment – providing the necessary structure for other banks to adopt it.

The government also played an important role, not directly by stimulating ethical investment but by putting pressure on the financial sector to show commitment to sustainable development. In Chapter 5 it was shown how at the international level, financial institutions have been criticised for their lack of engagement since the beginning or middle of the 1990s.

In 1989, the Dutch government established national environmental targets for several sectors of the Dutch economy stipulated in the National Environmental Policy Plan (NEPP) and the National Policy Plan Plus (NEPP+) (Bouma & Jeucken, 1999). In the NEPP and NEPP+, the banking sector was not directly targeted but was mentioned in connection with the clean-up costs of their customers. This did not affect banks. However as a consequence of the NEPP, a new sector focused on environmental technologies grew in the Netherlands. In 1998, financial institutions were directly targeted by the Dutch environmental policy of the government in its Policy Document on the Environment and the Economy. In 1999 a new initiative was established: the Environmental Dialogue between Banks and Governments. Its purpose was to stimulate environmental improvements through the development of new financial products and services and through an optimal match between the environmental and fiscal policies of the government (Bouma et al., 1999). The end of the 1990s displayed a clear will on the government's part to increase the environmental awareness of the financial sector.

In March 2001, the same year the European Commission published its 'Green Paper', the Dutch government issued a 'white paper' to present its perspective on CSR (Ybema, 2000). The government stated that CSR – defined as a company caring for its domestic and foreign social effects – is a current priority for the Dutch government. The government wanted to support CSR, not through regulation – arguing it is not a suitable tool – but through individual initiatives. In this paper the Social and Economic affairs ministry discussed the role of the government in promoting CSR. Corporate social responsibility was described as the conscious guidance of business activities towards creating value in three dimensions in the longer term: not only in terms of financial-economic variables, such as share values, but also in an ecological and social sense. These values referred to the Triple P bottom line: profit, the production of goods and services; people, the consequences for people, inside and outside the company; and planet, the effects on the natural environment. With the White Paper the Dutch government reaffirmed its determination to promote corporate social responsibility within the business community, among which financial institutions.

Dutch financial institutions felt increasing pressure and took action to show commitment. One of the first initiatives from the financial sector, jointly with the government, was to develop a unique tax incentive scheme for green investment known as the 'Green Savings and Investment Plan'. It was introduced in 1992, and launched in1995. Dutch Green Funds have the characteristics of offering a unique tax incentive scheme. Private investors are not taxed on their interest and dividend income, provided that this derives from investment in certain green investment funds. These green investment funds, in turn, have to invest in certain green projects. Bouma, Jeucken, & Klinkers (2001) and Scholtens (2001) provide more extended information on the Green funds (Bouma, Jeucken, & Klinkers, 2001; Scholtens, 2001).

A study conducted by Jeucken (2001) shows that Dutch banks are among the best regarding sustainability issues; it contains a survey of state-of-the-art sustainability and banking among 34 mainstream international banks (Jeucken, 2001). The survey includes three Dutch banks: ABN Amro, ING Group and Rabobank Group. Dutch banks are among the front-runners while most of the banks (53%) are in the group of the stragglers with a rather defensive approach. ABN Amro and ING Group have an offensive approach and Rabobank is qualified as sustainable banking (see Chapter 5 for a description of the approach). The three Dutch banks have an environmental assessment system, an environmental policy, and publish an environmental report. All three offer environmental funds, insurance, leasing and advice services. Two of them offer environmental loans and climate products (ING and Rabobank). In addition Rabobank offers micro-credit and environmental venture capital.

In their strategies for improving their sustainability performance, financial institutions adopted ethical investment. This reflected a market opportunity –there was demand for it – but also offered a mark of commitment to sustainable development in line with their general strategy. By 2002 all major Dutch banks and investment houses offered some kind of ethical vehicle encompassing all shapes and sizes of retail financial products (McCallin, 2003).

6.4 Ethical investment funds: definition, motives and criteria

6.4.1 Unclear definition

Ethical fund managers in the Netherlands have some difficulties in grasping what is ethical investment. A number of them said: "*There are lots of names*"(P4), *"There is no clear definition, no standard definition*"(P8); "*It is difficult to define because it is linked to several personal values, that are different for each individual*" (P3). Box 2 discloses some of the definitions fund managers gave during the interviews. All of them referred to criteria and/or what type of companies it includes.

Behaviour of companies with respect to environment and social issues - Exclusion of certain activities or behaviour (P1)
What we believe is that SRI includes the following: companies act in a way that doesn't harm the environment and people or social systems. (P2)
Sustainable investment is for us the third generation type of investing with a combination of absolute and relative criteria, and with today situation as a starting point. (P4)
We have criteria looking at negative aspects and also positive screening. We classify companies on the basis of the best performance in the sector (P5)
It is investing in sustainable companies, companies that are sufficiently 'sustainable' (good, very good, acceptable) (P6)
We look in our investment approach not only to financial criteria but also to social and environmental criteria (P7)
We want to invest in companies that have a good track record from an social, environmental and financial aspect. (P8)

Box 2 – Definition of ethical investment by Dutch fund managers

Ethical investment in the Netherlands is called by different names. Among the ten Dutch ethical funds investigated in this thesis, three of them use 'ethical investment', four 'sustainable investment', one 'SRI' and two use 'SRI' and 'sustainable investment' interchangeably. The three using 'ethical investment' are the first three funds launched in the Netherlands. One of them is thinking of changing the designation: 'sustainable' instead of 'ethical'. The fund manager explained that this change was being considered because 'sustainable' is more objective and more internationally recognised.

6.4.2 Differences in motives

There is a clear distinction between the funds. Funds that use the name 'ethical' are referred to as the 'old' funds while funds that use 'sustainable' are referred to as 'new' funds. 'New' fund managers do not like the reference to ethics because of the questions it raises and the connotations is has (religion). They prefer to talk about sustainability or corporate responsibility.

This distinction is made by fund managers themselves but also by other actors in the field, such as corporations, investors and some NGOs. The old and new funds have different connotations. Table 30 shows the perception of the two types of fund by the fund managers and companies' managers interviewed. According to the managers of the old funds, this tendency to use 'sustainability' instead of 'ethical' came in 2000.

Old funds as viewed by managers from the new funds	**New funds as viewed by managers from the new funds**
Religious inspired	Based on sustainability, the triple bottom line
Exclusionary, Sin stocks	Positive
Negative funds	Best in class approach
	Not excluding too many sectors
Subjective	More objective, organic, vivid
Ethical norms and values	Idea of future
Questionable	Practically inspired
Morality preacher, Negative connotations	More pragmatic
Fundamental and fundamentalists	Stimulate companies
Ideological funds	Less about excluding, more about influencing and informing
Old flower-power generation, Old-fashioned	Market opportunity
Niche player	We are an investment house first, profitability is a priority
	We don't impose our views on our investors
Old funds as viewed by managers from the old funds	New funds as viewed by managers from the old funds
Profitability, although important, is not the sole priority	Superficial screening
	Marketing tool
Knowledge	The content is weakening
Serious and rigorous	Ideological motive is lost
Engaged (institution as well as investors)	Just look at the best of sector
As institution we do have values that are reflected in the fund	

Table 30 – Views on the 'old' and 'new' funds by fund managers (source: interviews)

In practice, fund managers in the Netherlands do not favour references to ethics. They prefer using 'sustainable' or 'responsible'. Ethics, they say, raises numerous questions: "*What is ethics? Whose ethics?"* (P4) It is a difficult dimension/aspect because "*as soon as you start to talk about ethics every body has a different opinion and there is no right or wrong in this subject*" (P2), "*ethics has to do with believe of people or companies*" (P3), "*it is subjective*" (P3, P4, P5). In general financial institutions do not wan to be perceived as "moral preacher" and therefore are careful about the ethical dimension. When referring to ethics most of the time fund managers talk about the exclusionary criteria: "*We do have some ethical exclusions (weapons, tobacco, pornography,* *gambling, nuclear power, fur, human rights) but what we really would like to have in the future is a fund that has only positive criteria, but at this moment that's not possible therefore we have ethical criteria*" (P2); "*On a fundamental level there is ethics every where but to us in the day to day business we tend to equate ethical issues with exclusion constraints (no alcohol, no nuclear energy)*" (P10). It is also the ethical dimension which is said to make the difference between the 'old' and 'new' funds.

All ethical fund managers interviewed in the Netherlands but one referred to sustainable development, either directly quoting the Brundtland definition or indirectly referring to the 3Ps or the triple bottom line. The one who did not refer to sustainable development was the manager of an old ethical fund. This fund manager found the definition of 'sustainability' confusing and not yet suitable for this kind of investment (P1). He said: "*We don't have the so-called 3 Ps principles or sustainability. We were from before, these concepts were not yet existing*" (P3). The ethical fund manager of the other old fund mentioned sustainability but not exactly as the reference. He referred to the ILO conventions rather than to sustainability. For the rest sustainable development is the "backbone" (P2) reference whether as an aim or as guiding principle – this is not always clear. Most of the time, it seems to be both simultaneously. During the interviews, when asked what ethical investment is, one of the fund managers answered: "sustainable development".

Fund managers from the 'old' funds tried to justify their position while the fund managers from the 'new' funds tried to make clear that they do not belong to the older generation. The group of 'old' funds feels that ethical investment activity is changing. They say that the content of the 'new' funds is weakening. 'New' funds see the 'old' funds as a niche market and moral preachers. 'New' fund managers do not consider 'old' funds as direct competitors because they do not have the same market and targets (investors). They describe the 'old' funds as negative funds, that is "don't *do this, but do that*" (P12). The 'new' funds consider themselves first as investment houses where profit is an important aspect of the activity. 'New' fund managers refer to sustainability. They do not talk about ethics. There is a clear split between the 'old' and 'new' funds.

'Old' and 'new' funds have been launched for different reasons. For all of the financial institutions managing the 'old' funds, the ethical investment fund was their first mutual fund. They started such an activity because their clients wanted to invest on the stock market – there was a demand for mutual funds. However, both the financial institution and the potential investors wanted to do this in such a way that the fund would respect certain values. Clients of those banks, Triodos and ASN, are specific groups of people with an exceptionally high environmental awareness. One of the reasons that motivated Triodos Bank to launch the MeerWaarde Fund was also that they saw the possibility to reach and influence large corporations, which were out of their focus.

Managers from the 'new' funds had different reasons for launching an ethical investment fund. For all of them, the fund was not their first mutual fund. They were all familiar with investing on the stock market. During the interviews four main reasons came out:

(1) Competitors are doing it.

"…*we felt pressures for our competitors*" (P2);

"…*our competitors are doing it*" (P2) (P6);

(2) It is good for the image.

"…*one of the ways to show our commitment to sustainability*" (P4);

(3) It is a good market opportunity (P2) (P3)(P7) (P8) and financially interesting:

"…we saw a trend in the market. It was going to be a new market development." (P6)

"…*there is one thing we want to prove:… It is not only good for society and the environment… but it has also a good performance*" (P2);

"… *to achieve an above average financial returns and at the same time giving clients the opportunity to colour their money*" (P4)

"*The reason why we do that (sustainable investing) is because we think that in the long run it would lead to higher returns or to the same return but with less risks*" (P7)

(4) They were afraid of a new regulation, especially after the UK regulation for pension funds (P2)

An important difference between the 'old' and 'new' funds is the way they present the values the fund stands for. The 'old' fund managers argue that their fund's values reflect the organisation's values: "*it is closely related to our mission statement*" (P3). Financial institutions from the 'old' funds use ethical, social, and environmental criteria for all their funds. On the other hand managers from the 'new' funds say that their fund's values are the values of their clients (the investors). 'New' funds "*don't impose [their] views on investors*" (P8). For financial institutions managing the 'old' funds, ethical investment products are not regular products. Most of their other funds do not apply social or environmental criteria. 'Old' funds are more internally oriented while 'new' funds are more market oriented.

Another aspect that differentiates these two categories is the arguments used to present the funds. The 'old' funds claim that they hope or want to change companies' behaviour: "*we want to see companies changing behaviour*" (P1), "… …*to help to create a better world*" (P3). It is one of their primary goals. Of course 'managers do not deny the important of the financial performance of the fund, but as one of them noted investors are willing to accept under-performance as long as the fund applies thorough criteria:

"…*It is interesting to note that there are some shareholders that find the performance too high. They say that they want to invest in sustainable companies, but they make clear that the high performance is not their aim. They don't look for the highest*

> *performance, but rather for the highest social and environmental performing companies. Their motives are more on principles than on financial return. They feel the need to say it, to make it clear to everybody, so they say it during annual meetings. Most of the people of this group mentioned the economic performance as an important argument (five persons interviewed*).”(P3)

Managers from the ‘new’ funds present social and environmental screens as a way to obtain outperforming funds. The objectives of the funds are primarily to obtain a good financial performance: “*…the aim is to deliver the best investment performance*” (P8); “*…the performance is what counts*”(P7); “*…we believed that it would be profitable… we knew that the return of portfolio with SRI filter at least matches the returns of conventional portfolios*” (P2; 109:110; 204:205).

If fund managers have difficulties in defining what ethical investment is, they clearly make a distinction between what they call the ‘old’ and the ‘new’ funds. Table 31 summarises the differences between the two groups. Several aspects come into play. Financial institutions from the ‘old’ funds are social banks. This characteristic puts them at the margin of the financial sector. They launched an *ethical* investment fund because of a certain ideology while financial institutions from the ‘new’ fund acted because of a market opportunity.

It is also interesting to note that during the interviews, it came out that investors from the ‘old’ funds are quite actively following the management of the fund in terms of the companies that get selected. Annual meetings of the ‘old’ funds are always attended by a large number of the investors, who ask questions especially on ethical issues. This does not happen, or less, with the ‘new’ funds.

Old funds	*New funds*
• Ethical investment	• Sustainable investment • Socially Responsible Investment
• All funds managed by the financial institutions are either ethical or green funds	• The ethical fund is one fund among a number of other regular funds managed by the financial institution
• First institutions to launch ethical funds in the Netherlands (in the 1990s)	• Ethical funds were launched at the beginning of the 2000s
• Social banks	• Mainstream banks
• Client’s demand	• Competitors effect
• Internal drive	• Market opportunity
• Values of the ethical fund reflect the values of the organisation	• Values of the fund reflect clients’ values (investors)
• Desire to change corporations’ behaviour	• Desire to have a more profitable fund (compared to regular funds)

Table 31 – Differences between ‘old’ and ‘new’ funds

6.4.3 Standardisation of the ethical criteria

At first, ethical investment funds in the Netherlands were based on exclusionary criteria (see also history of Triodos MeerWaarde Fund in chapter 2). Some sort of comparative criteria were also used, but they were not written down. Ethical selection was based on 'feelings'. In the UK and US most of the funds, if not all, used exclusionary criteria in the early 1990s. Ethical fund managers in the Netherlands did the same. Little by little the comparative criteria developed and at the end of the 1990s the focus changed towards comparative criteria

According to ethical fund managers the criteria have hardly changed over time: "*in the content the criteria never changed*" (P1). Additional criteria have been included such as GMO (P1) (P2) (P3) (P4) (P8), medicines for the poor (P4). But for most of the criteria, if there has been any change, it has been in the refining of the definition. A fund manager from an old fund noticed that although the "*main criteria haven't changed over time, the indicators, or what you mean by it has changed*"…"*the main criteria are always the same. They have not changed… but how do we look at it has changed*" (P3). Although names of criteria have not changed, the understanding and thereby the implementation have changed. Criteria evolve over time according to societal development, scientific knowledge and political trends.

An important evolution seems to be the 'officialisation' of the criteria. There has been a need to spell out the criteria and the way they are applied: "*it was not formally written but we were already doing it*"(P1).

On the basis of a report from VBDO (2002) and some additional information, a comparison of the social and environmental criteria used by 11 Dutch financial institutions shows that if there are some differences in the exclusionary criteria among those 11 financial institutions, there is little difference in the comparative criteria (see Annex 6). All of the funds use exclusionary criteria. The number of exclusionary criteria varies from 2 to 28. Exclusionary criteria have been classified in three categories: controversial sectors (meaning that the whole sector is excluded), controversial products or services (meaning that a company is excluded if producing or offering the product or service), and controversial production processes (related to practices such as violation of human rights). Of these three categories, "controversial sectors" is the least popular. In this category, the most used criteria is weapons production. Only two funds (two 'old' funds) use all of the criteria. The other funds (the 'new') use between one and two criteria. In the second category related to products and services, one of the 'old' funds uses the most criteria (11) and one of the 'new' uses none. For the rest the number of criteria varies between 7 and 9, with one fund using 3. The most popular criteria are tobacco and gambling. In the third category, controversial production processes, all but one (a ‘new’ fund) use criteria from this category. ‘Old’ funds once again are using more criteria. The most popular criterion is surprisingly forced labour closely followed by violation of human rights. ‘Old’ funds tend to use more exclusionary criteria than ‘new’ funds. They use between 28 and 25 criteria, while ‘new’ funds use between 2 and 21. These criteria are not used the same way by all the funds. There is another distinction based on ‘used’ and ‘preferably not’. ‘Used’ means that the criterion is always used, and ‘preferably not’ means that it is sometimes used according to the case. When the ‘preferably not’ are subtracted, the number of criteria used in total varies between 28 and 1.

As of the comparative criteria, they have also been classified into three categories: general, environmental and social aspects. Each of them consists of several aspects such as environment management. For the three categories, there is a high degree of homogeneity among the funds. In total the number of aspects used by funds varies between 19 and 12. Both ‘old’ and ‘new’ funds use comparative criteria.

Concerning the inclusionary criteria, 82% of the funds use them. It has not been researched how many are used and which.

It is interesting to note that all funds use exclusionary and comparative criteria, and almost all of them inclusionary criteria. Comparative criteria are rather homogeneous amongst the funds. The distinction is on the exclusionary criteria. ‘Old’ funds tend to use more exclusionary criteria than ‘new’ funds.

Rating organisations do play an important role in the definition of the criteria. A majority of the fund managers interviewed (6 out of 10, among which two are not from the same organisation) mentioned that a rating organisation helped them with the definition and choice of criteria. Numerous ethical funds have developed their criteria in collaboration with a rating organisation. All Dutch ethical funds use the services of one or several rating organisation (Triodos Research, EIRIS, SNS, Innovest, SAM Sustainability Group and KLD). As Chapter 2 showed, rating organisations work internationally and tend to develop international standards. This homogenisation among rating organisations has a direct impact on ethical funds. Funds tend to become alike. Funds may have different definitions and motives but they get similar information from rating organisations.

6.4.4 Conclusion

The Dutch case does not differ from the international context regarding the definition of ethical investment: fund managers have difficulties in defining ethical investment. They are confused by the several names and the multiplicity of values it represents. They mainly describe it in terms of actions, that is excluding and including.

When looking at the criteria and methodology used by all the funds, there is little variety. They all use exclusionary and comparative criteria, and most of them also use inclusionary criteria; except that ‘new’ funds tend to use less exclusionary criteria than ‘old’ funds. But what is interesting is that all fund managers use the services of one of more rating organisations. Rating organisations have become an indispensable partner in the management of ethical funds. Moreover a number of them use the same information provider (four of them use Triodos Research, four KLD, four SNS).

The analysis of the Dutch case shows a split between ethical fund managers: the ’old’ and the ‘new’. Both groups do not want to be mixed up with each other, although in practice there are only small differences. The ‘old’ fund managers describe themselves as more serious and rigorous while describing ‘new’ funds as superficial and market oriented (without values). On the other hand, ‘new’ fund managers describe ‘old’ funds as fundamentalists and moral preachers, while they describe their funds as more objective, pragmatic and positive. What distinguishes them are the motives for which they engaged in ethical investment and the values they attach to the activity.

6.5 Institutional actors

Institutional actors create (produce), embody and enact (reproduce) the logics of the field (Scott, Ruef, Mendel, & Caronna, 2000). Actors are both agents, who exercise power to affect and alter existing systems and rules, and carriers, who embody and reflect existing norms and beliefs (Scott et al., 2000).

6.5.1 Overview

Laumann *et al*. suggest that analysing participants lists at specific events is a way to identify actors in the network under investigation (Laumann, Marsden, & Prensky, 1983). A conference may be defined as “a meeting of individuals or representatives of various bodies for the purpose of discussing and/or acting on topics of common interest” (Longman, 1978). It may be referred as an event.

For the purpose of this research the lists of attendees to Triple Bottom Line Investing conference (TBLI) from 1999 (first TBLI conference) to 2002 has been investigated. The TBLI conference was chosen because first of all interviewees from financial institution and corporations’ managers mentioned it; also a number of them, especially fund managers, said they attend it regularly and if they had to choose between several conferences they would first go to the TBLI. Secondly the TBLI is one of the world's largest international event dealing with ethical investment. The list of attendees of the four first conferences have been analysed.

The first TBLI conference held in 1999 counted 146 attendees from 10 different countries. Attendees from the Netherlands represented 62% of the total attendees. The second well-represented country was the USA with 11%. The UK, France and Belgium represented between 5 and 6% each. The five other countries were Switzerland, Sweden, Germany, Denmark and Norway. The conference has been very successful and its number of attendees kept growing: 2000: 354, 2001: 349, and 2002: 411. In four years the number of attendees has been multiplied by 2.8. In 2002, attendees were from 26 different countries, among which the Netherlands was still the most represented with 21%, followed by the UK (22%), USA (14%) Belgium (9%) and Switzerland (6%) (TBLI, 2003).

Attendees have been distributed into 14 categories according to the type of organisation they represent (see Annex 7). Table 33 highlights the categories that are the most represented. There are three of these: financial institutions, consulting organisations and corporations. The category 'financial institution' has always been the strongest represented (above 30%) of all categories. Consulting organisations also count a rather large percentage, which has always been above 10%, and once in 2001 above 15%. The number of corporations has been increasing over the years: 9% in 1999, to reach 20% in 2002, making it the second most important category. The NGO category, in contrast with corporations, decreased over the years. In 1999 it was the third most important category (13) after financial institutions and consulting organisations. In 2001 and 2002 it dropped to 4% putting it in 7th position. 2001 seems to show several changes in the categories representation. If NGOs became less represented, stock markets, press, and rating organisations increased. The government category shows an increase in 2002.

The analysis of the TBLI attendees from 1999 till 2002 shows interesting tendencies in the field. The number of participants in each of the categories increased from 1999 to 2002. The category 'stock market' records the highest increase in number of participants (multiplied by 9), although it represents only 2% of all TBLI participants. Another impressive and interesting increase is the press (multiplied by 7.33), then comes UNEP and UE (multiplied by 7) and corporations (multiplied by 6.23). The interest of the press and intergovernmental bodies clearly shows that ethical investment is becoming more important in the political (government category has been multiplied by 3.67) and societal debate (university multiplied by 3.1). The number of rating organisations represented has also increased (multiplied by 3.2, from 10 representatives of rating organisations in 1999 to 31 in 2002). As for financial institutions their increase is less visible (multiplied by 2.3). The lowest increase concerns NGOs, only multiplied by 0.79.

The analysis of TBLI attendance shows that financial institutions and corporations are the most important actors, ethical investment is getting increasing attention from the press (see Table 32), while NGOs seem to be withdrawing from the discussion platform.

As for the content of the conference, TBLI is increasingly becoming a procession of best practices, where corporations come and present the way they deal with sustainability issues, and a place where new tools for ethical investment are displayed.

	1998	**1999**	**2000**	**2001**	**2002**	**2003**
Trouw	6	8	7	15	18	16
Financieel Dagblad	9	6	13	15	19	33

Table 32 – Number of articles mentioning 'sustainable investment' in two Dutch newspapers: Trouw and Financieel Dagblad (source: newspaper's websites, January 2004)

Code	**Category**	**1999**	**2000**	**2001**	**2002**
FI	Financial institutions and related	39%	33%	38%	32%
CO	Consulting Organisations	14%	14%	16%	12%
NGO	NGOs and trade unions	13%	9%	4%	4%
CSR	CSR organisations	3%	2%	3%	2%
EI	Ethical Investment organisations	2%	1%	3%	1%
IP	Index providers	1%	1%	2%	2%
J	Journalists	2%	2%	3%	5%
C	Corporations	9%	17%	12%	20%
RO	Rating organisations	7%	7%	8%	8%
U	Universities	7%	9%	5%	8%
G	Governments	2%	1%	1%	3%
IGO	Intergovernmental organisations	1%	0%	1%	2%
O	Others	1%	4%	3%	1%

<5%
5-10%
10-15%
15-20%
20-25%
>25%

Table 33 – Percentage TBLI categories (1999:2002)

6.5.2 Changes in key actors

Four types of actors will be investigated, namely companies, financial institutions, rating organisations, and investors. These four groups fulfil a primary function in the field of ethical investment, either supplying information or services or buying services, and have direct link to one another. Companies have a double function: they provide information for the screening and offer investment opportunities for investors. Financial institutions also have a double function; they offer and manage the ethical investment fund and buy the services of rating organisations. Rating organisations provide the company screenings and other services to financial institutions. Investors buy financial investment services.

Financial institutions are becoming increasingly interested in ethical investment and therefore are a growing group of actors. Looking at the attendees of the TBLI, since 1999 it has always been the dominant group of actors. However the type of financial institutions involved has changed. At the very beginning, in the early 1990s, there were mainly alternative/social financial institutions such as Triodos. But over time mainstream financial institutions have taken over the group. And in the near future one may expect pension funds to become an important type of financial institution. Those different types of financial institutions have different motives for and approaches to ethical investment. The role of the financial institutions group has changed as well. It has shifted from financial institutions doing everything (screening and fund management) to financial institutions responsible only for the fund management. They have delegated the screening to rating organisations.

Rating organisations emerged in a large number of countries. In the Netherlands there is only one, but in the UK for example, or the US, there are several of them. Rating organisations collaborate or work together. SiRi Group is a good illustration of collaboration gathering eleven rating organisations. Over time they have created a function with a title, 'sustainability analyst', that they all use and by which they are recognised. This title appeared in the 2000s. The number of activities they offer has increased over time, but the core activity remains corporate profiling. One new activity is sustainable Management Consultant. For a number of rating organisations this activity came up in the late 1990s-early 2000s. The third core activity is rating. Within Triodos this activity developed because new clients were interested in such a product.

Corporations subjected to screening have increased in number. When ethical investment started sustainability analysts focused on national companies, specific sectors, and large corporations. Today screening concerns all types of companies from any country, however it remains focused on large corporations.

Investors is a difficult group to assess because little empirical data has been gathered in this group of actors. However, according to fund managers, investors have changed over time and change according to the type of financial institution. Investors from 'old' funds are more committed than investors from the 'new' funds. This may be explained by the fact that clients of social banks are in general more sensitive to, and aware of, environmental and social issues. They chose the bank for this reason. Investors from the 'new' funds have less interest in what 'ethical' or 'sustainable' means.

6.6 Relationships between actors

This section focuses on relationships between groups of actors. Relationships are explored in three main ways: membership of organisations related to ethical investment or CSR organisations; organisations represented in ethical advisory committees; and the frequency of contacts with the various groups of actors.

Please note that because in the Netherlands the number of rating organisations is limited to one, the investigations of the rating organisations in section 6.6.1 and 6.6.2 have been extended to the SiRi network, a network of rating organisations with which the Dutch rating organisation, Triodos Research, collaborates (see Chapter 2 for a description of the SiRi Group). SiRi consists of 11 rating organisations, including Triodos Research, from eleven different countries.

6.6.1 Connections with ethical investment and CSR organisations

The business relationships of each of the rating organisations, financial institutions, and corporations with ethical investment organisations (EI organisation) and CSR organisations were investigated. Please note that Triodos MeerWaarde Fund and Triodos Research have been integrated in their respected groups. Managers from rating organisations (comprising the SiRi Group), financial institutions, and corporations were asked the following questions: Is your organisation a part/member of any networks? Is your organisation a member of any organisations or/and working groups linked to ethical investment or/and CSR? Do you or someone else from your organisation sit on any advisory committees from other organisations? Do you have any contacts with any organisation or network related to ethical investment, CSR or sustainable development? In addition websites of each of the organisations examined were screened to find out partnerships, memberships with ethical investment, CSR or/and ethical investment related organisations.

Fifteen EI and CSR organisations were identified, meaning that at least one of the actors is a member, partner, sits on the board or takes part in the network. Annex 8 lists and provides a short description of the sixteen organisations. EI and CSR organisations have different targets but both groups focus on social responsibility and sustainable development. However EI organisations promote these within the investment community while CSR organisations do this within the whole business community. EI organisations are focused on one specific activity. In average CSR organisations were launched before the EI organisations. A majority of them were launched before 1995, while most EI organisations were launched after 1995.

The collected data show that corporations and rating organisations are members of very distinctive organisations: corporations are members of CSR organisations and rating organisations are members of EI organisation. As for financial institutions, they are members of both EI and CSR organisations (see Figure 22, Table 34, and Annex 10). GRI is the only organisation of which actors of the three groups are members. Note that a dotted line has been added between corporations and CERES because although companies of the present sample do no present links with CERES, this organisation contains a large number of corporations, mainly from the US.

Financial institutions' membership of both EI and CSR organisations may be explained because they are part of both groups: they are stock quoted corporations subject to screening and managers of ethical investment funds. Most of them are members of VBDO (80%). The two that are not a member are part of a larger financial group that is itself a member of VBDO. 50% of them are members of (or are connected to) GRI. This does not mean that they are very active within GRI but they do find it important to be informed and up-to-date regarding GRI developments. The most popular CSR organisation is WBCSD: 4 financial organisations are members of it. All of them but one is a member of at least one organisation (EI or CSR). The one that does not have any links is a pension fund (the only one among the ten financial institutions studied). It is however a member of other organisations such as SODP. In total 29 connections were found, representing an average of 2.9 connections per financial institutions. There is no noticeable difference between the 'old' and 'new' funds.

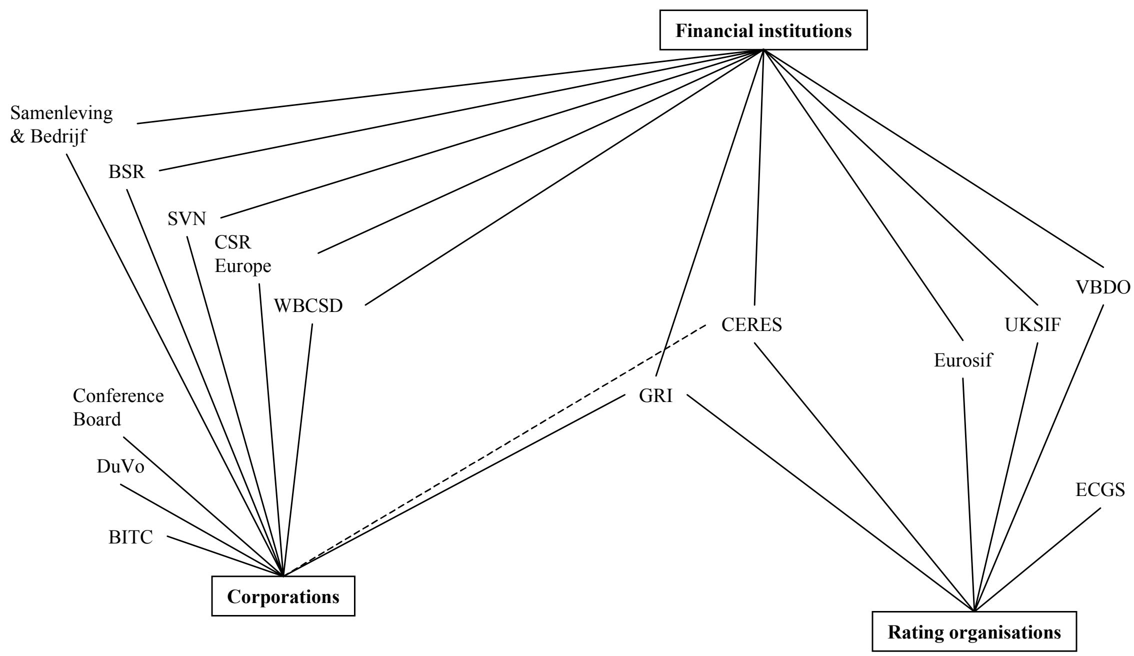


Figure 22 – Ties with EI and CSR organisations

The corporations group records a higher average of connections per company (3) than financial institutions. This high result is mainly due to two companies, C1 and C4, each of which counts 8 connections. They are connected to 60% of the list of the 15 EI and CSR organisations, and 90% of the CSR organisations. They are far more connected than the other corporations. The others count 1, 2 or zero connections. The two highly connected corporations are from two different industrial sectors, but are both sustainability leaders in their own sector and both are listed on the sustainable indices.

The connections of the rating organisations vary a great deal. One of them is connected (RO4) to 80% of the EI organisations, while two others (RO7 and RO9) have no connection at all. The average number of connections per rating organisation is 1.9. It is important to note that the 11 rating organisations screened are all part of the same group (SiRi Group) and therefore share information between them. The most popular EI organisation is UK/US SIF, 6 out of 11 are members. It is interesting to note that 5 out of 11 rating organisations are a member of, or connected to GRI. Like the financial institutions, they do not necessarily take an active role within GRI but they find it important to be updated on its development. The group of rating organisations is international. Some of them are connected to national networks but this has not been presented in Table 34.

	FI	C	RO	Together
Eurosif	10%	0%	19%	10%
UK&/or US SIF	3%	0%	29%	10%
ECGS	0%	0%	19%	6%
CERES	3%	0%	5%	3%
VBDO	28%	0%	5%	13%
CSR Europe	3%	11%	0%	4%
GRI	17%	11%	24%	17%
BSR	3%	11%	0%	4%
Samenleving & Bedrijf	10%	11%	0%	7%
BITC	0%	11%	0%	3%
Conference Board	0%	16%	0%	4%
WBCSD	14%	11%	0%	9%
DuVo	0%	11%	0%	3%
SNV	7%	11%	0%	6%
Total	100%	100%	100%	100%

Table 34- Relationships with EI and CSR organisations

Cross-relationship analysis between EI and CSR organisations was carried out. No significant connections could be found. The analysis was based on information disclosed by the organisations (websites and publicly available reports). It looked at ties between each of the EI and CSR organisations that is, whether or not they are member, partner, founder, initiator or shareholder of any of the EI or CSR organisations. Ten ties could be found. The most significant were Eurosif and UN Global Compact. Two organisations are member of the Eurosif and four of UN Global Compact. Note that the cross-links remain either among CSR organisations or among EI organisations (GRI being the exception, EI and CSR organisations are members of GRI).

6.6.2 Connections through the ethical advisory committee

An Advisory Committee of a corporation is understood as a group of people (independent or not) that provides advice on, and is consulted about, matters related to ethics, sustainable development and/or corporate social responsibility. An Advisory Committee in a rating organisation is understood as a group of people (independent or not) that provides advice on, and is consulted about, matters related to the screening process (methodology, criteria, selection of companies). An Advisory Committee for a financial institution is understood as a group of people (independent or not) that provides advice on, and is consulted about matters related to the management of the ethical fund (criteria, methodology, company selection).

Table 35 presents the breakdown (in percentage) of the composition of ethical advisory committees per group of actors. When the composition of the upcoming committee was known, it was taken into account in the data (such as F2, and RO9). Corporations, financial institutions and rating organisations were asked whether they have an advisory board and who its members are.

Figure 23 provides a graphical representation of the ties created through the advisory committee (see also Annex 10). The bold arrows are the most significant ties (more than 20% of the organisations do have a member from this group). Note that one of the organisations (C1) does not have an official advisory board but has a group of people that plays the role of advisory board. It has been counted as an advisory committee but there was no information available about who sits on the committee. Please note that in numerous cases members of advisory committees sit in their own capacity, and do not represent a specific organisation. However for the purpose of the thesis, they have been classified according to the organisation they work for.

Out of the three groups of actors, 55% of them do have an ethical advisory committee, 15% were in the process of setting one up, 30% did not have any ethical advisory board and did not intend to have one in the near future. Nine (ten if counting other) different categories are represented on the advisory board.

Two categories have a distinctive higher representation, namely academics (21%) and NGOs (25%). These two groups are in the majority in all organisations, except financial institutions. The rest varies between 15% and 2% with in decreasing order: financial institutions (15%), corporations (13%), Government (8%), consulting organisations (8%), journalists (4%), investors (2%), CSR organisations (2%) and others (2%). The category ‘other’ is due to a member of the advisory board of F4 who, at the time of the interview, was not yet known. Note that a number of categories are not at all represented, such as rating organisations and EI organisations.

Seventy per cent of the financial institutions have an advisory committee related to their ethical fund. One financial institution (F2) is going to set up a committee in the near future (as of the date of the interview a consulting organisation was playing the role of advisory committee). That means that in the very near future 80% of the financial institutions will have an advisory committee. Representatives of 8 categories are included: NGO, financial institution, company, government, university, consulting organisation, investor and journalist. The two most represented categories are corporation and NGO – both with 19%. In general members of the advisory committees are not very diverse. Three of them (F2, F5, and F7) are composed of only one category. The most diverse committee is F4 with five categories represented.

Fifty percent of the corporations have an advisory committee and 33% are in the process of setting one up. The two that do not have any committee and do not intend in the near future to set one up are from the same industrial sector, the Media (C5 and C6). Advisory committees consist of 2 to 4 categories. As with financial institutions the categories the most represented are NGO (33%) and university (33%). The two other categories represented are CSR organisation (the only committee including this category) and consulting organisation.

45% of the rating organisations have an advisory committee, but 18% are in the process of setting one up. That is the lowest rate of the three groups of actors. Committees consist of one to five categories. RO4 is the only one with five categories, and RO5 the only one with only one category. University and NGO, once again, are the most represented (29% both).

	FI	C	RO	Total
FI	14%	0%	19%	15%
C	19%	0%	10%	13%
NGO	19%	33%	29%	25%
I	5%	0%	0%	2%
CSR	0%	17%	0%	2%
G	14%	0%	5%	8%
U	10%	33%	29%	21%
CO	10%	17%	5%	8%
J	5%	0%	5%	4%
O	5%	0%	0%	2%
Total	100%	100%	100%	100%

Table 35- Member representation on ethical advisory committees

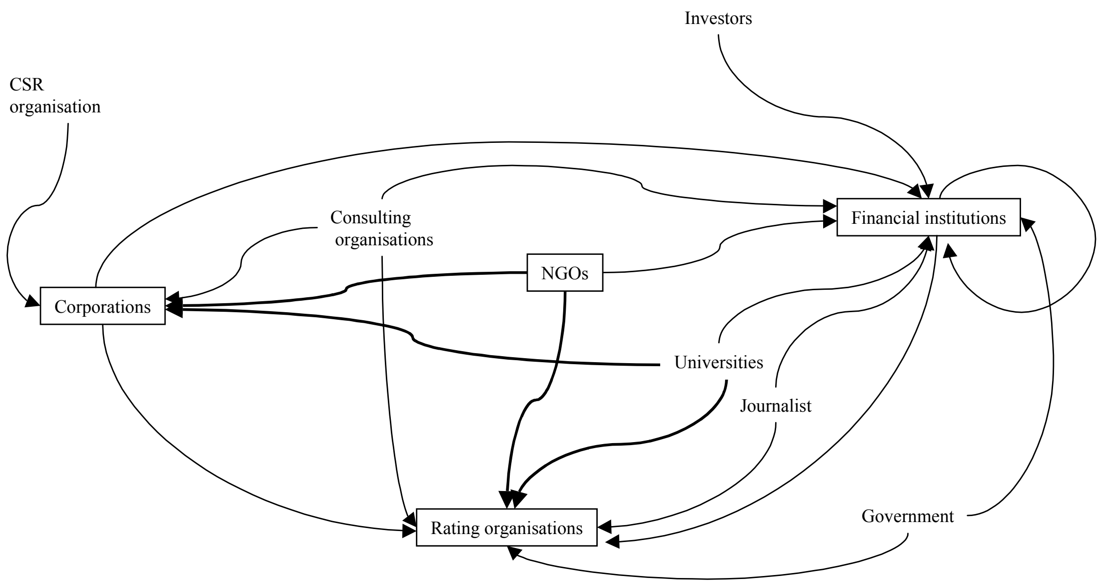


Figure 23 – Ties between organisations through advisory boards

6.6.3 Contacts frequencies

During the interviews each of the interviewees was asked a number of questions related to their contacts with actors in the field especially financial institutions, investors, rating organisations, consulting organisations, corporations and NGOs. Questions were related to the type and frequency of contacts. However the questions were open ones and were used as guidelines, and interviewees did not give very precise answers. Therefore results must be cautiously interpreted. The analysis of the interviews' content provides an estimation of the intensity of the contacts.

This analysis concerns only financial institutions, corporations, and the Dutch rating organisation. The analysis of the rating organisation is based on the observation-participation.

Two specific aspects have been looked at: the frequency of contacts and the centrality of the group of actors. The frequency concentrated on the existence of the relationship – is there any relationship to measure and the amount of relationships. This measure is difficult to capture through perception (Krackhardt, 1987) or documentation (Higgins, McClean, & Conrath, 1985), however for the purpose of the study, only a broad indicator is used, differentiating relationships at 3 main levels. The relationships are determined on a scale from 0 to 3: 3 frequent and regular contact, 2 frequent or regular contact, 1 not frequent and not regular, and 0 no contact. And the centrality refers to an individual actor's position in the network relative to others. It evaluates an actor's prominence (Wasserman & Galaskiewicz, 1994). Centrality is a useful concept as it shows us how important an individual is in the flow of information and the structure of a network.

In order to define the frequency of contacts several aspects are taken into account:

- Members of advisory committee
- Organisation of/participation to common event such as “the day of ethical investment’, but also shareholder meeting, development of training course or workshop together
- Working processes (visits, interviews, consultation of stakeholders)
- Membership, partnership, ownership, sponsorship (“*We are part of/is a member of*”)
- Type of relationship (managerial, contractual, informational, social)
- The way interviewee talked about the actors (see Table 36)

0	**1**	**2**	**3**
Not ourselves *I haven’t had contact…* *We don’t have contacts…* *Not directly…* *We still have to make our relations with…* *They never ask directly…* *No*	*it happens…* *Not too many contacts…* *It happens once in a while…* *Yes, but usually during conferences…* *Some times but not often…* *It happens more and more…* *Sometimes…* *That does not happen often…* *Some contacts…* *Not on a constant basis…* *We have access to…* *We are inviting…* *I was invited…* *We try to contact them…* *For some occasions…* *Once or twice a year…*	*Every year…* *Close relation…* *It happens quite often…* *A kind of partnership has developed…* *On a continuous bases…* *We have some good co-operations…* *Quarterly meetings…* *We have contacts with…* *Quite a few…* *I have contacts with…* *We work together with…* *Like once every two months on average…* *Do have already quite a lot of dialogue with…*	*Lots of contacts…* *Many contacts…*

Table 36 – Interview analysis: scoring the frequency

Table 37 displays the frequencies combining the different sources. These relationships are shown in a diagram using different line thicknesses: the thicker the line, the higher the frequency (Figure 24). Please note that when relationships were not clear, in-between frequencies have been used such as 0/1, 1/2, or 2/3. For clarity’s sake, these in-between frequencies have been rounded up in the diagram (0/1=1, 1/2=2, and 2/3=3).

	Financial institutions	Rating organisation	Corporations	*Tota l*
FI	2	3	½	*6.5*
RO	3	3	3	*9*
I	2	1	½	*4.5*
NGO	2	3	3	*7.5*
C	1	3	2	*6*
CO	1	1	0	*2*
EI	2	3	½	*6.5*
CSR	1	0/1	2/3	*4*
G	0/1	0/1	1	*2*
IGO	0	0/1	0	*1*
U	1	1	1	*3*
Total	*15.5*	*19.5*	*17*	*52*

Table 37 – Frequency of contacts between groups of actors

Rating organisations are the most connected group of actors, with the highest total frequency (19.5), and are the most contacted (9). NGO is also a group of actors which is frequently contacted (7.5). These two groups may be regarded as two central actors of the network. Note that these two groups have very different roles in the network. Rating organisations have a central place in the supply chain, while NGOs are of importance in the opinion forming. NGOs sit on numerous advisory committees and are frequently and regularly consulted for information and advice on sustainability issues by all three groups of actor (FI, C and RO). Organisations that do have contacts with NGOs, usually do not hide it, on the contrary it is generously communicated. In third and fourth position come financial institutions, equal with EI organisations and corporations. There are a couple of actors that record a rather low total frequency of contacts: consulting organisations, government, inter-governmental organisations, and universities.

The diagram (Figure 24) allows us to highlight some elements that are not visible in the table. There are three important areas in which rating organisations, corporations and financial institutions are all involved. One of the areas links these three groups of actors to NGOs, a second one to EI organisations and a third one to CSR organisations. There are three major flows of connections around the central core formed by ranting organisations, financial institutions and corporations. A connection could be added between NGOs and EI organisations and NGOs and CSR organisations.

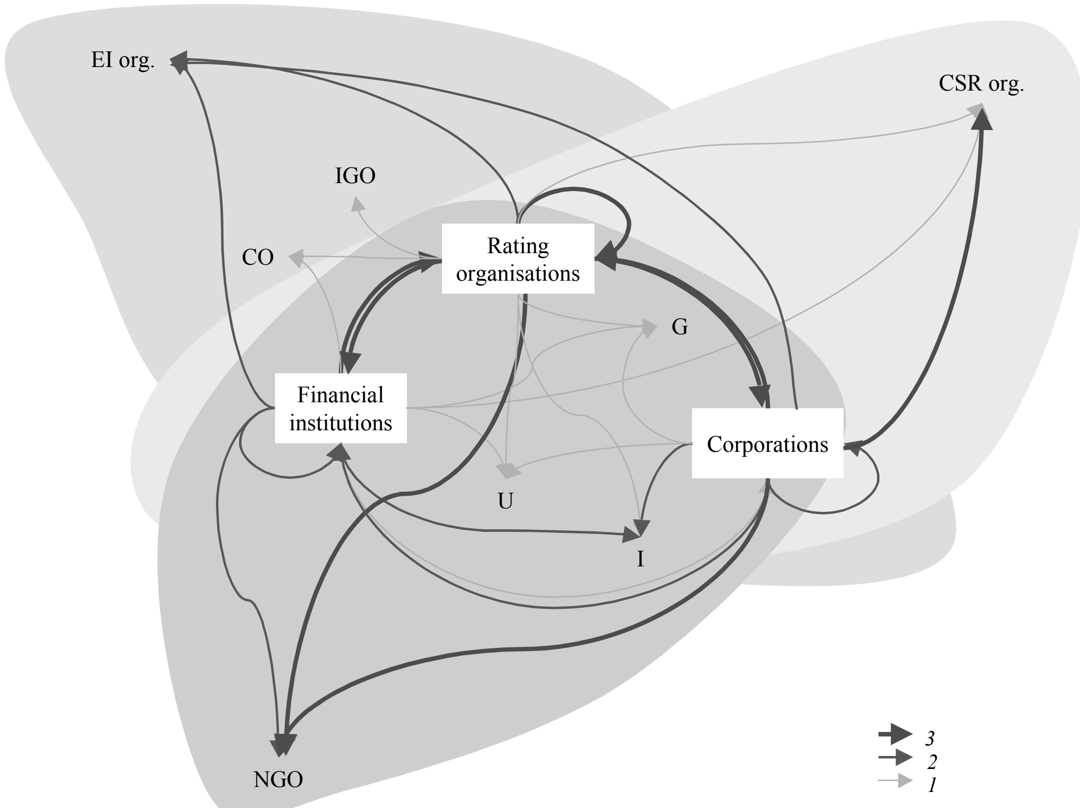


Figure 24 – Ethical investment diagram

6.6.4 Conclusion

The analysis of the relationships reveals some interesting patterns/structure. In terms of membership there are two important lines: on one side, financial institutions and rating organisations have developed links with a number of EI organisations, and on the other side financial institutions and corporations have developed links with CSR organisations. There are two separate groups of actors, EI and CSR organisations. Financial institutions are linked to both because, being corporations, they are also directly concerned by CSR in their own management. GRI and CERES are the only organisations that link all three groups: financial institutions, corporations and rating organisations.

Ethical advisory committees are an increasingly widespread element among the three groups of actors. The committee offers a platform where different actors meet and discuss. The dominant actors represented on the committees are Universities and NGOs. Those two groups provide legitimacy to the decisions and actions taken by the organisations. The three groups of actors have rather similar members' representatives on their committees.

The frequency of contacts shows that there are strong links between financial institutions-rating organisations and rating organisations-corporations. Financial institutions and corporations do not have frequent contacts through the activity of ethical investing.

6.7 Professionalisation

The expansion of ethical investment has been accompanied by the advancement of consensus about many aspects of the activity and the development of a specific and specialised knowledge. The previous section and preceding chapters (2 and 5) pointed at several elements that suggest a process of professionalisation. This section focuses on this aspect and explores to what extent a professional body has emerged. The activity refers mainly to the screening and selection of corporations for the ethical investment universe. The following paragraphs highlight elements that are characteristic of professionalisation, some of which have been described more in detail in previous chapters.

Professionalisation implies increasing specialisation and transferability of skill, the proliferation of objective standards of work, the spread of tenure arrangement, licensing or certification, and the growth of service occupations (Wilensky, 1964). New-institutional theorists have pointed to the role of professions as a powerful and important source of rationalisation (Meyer & Rowan, 1977) and as primarily being a source of normative isomorphism (DiMaggio & Powell, 1983). Professionalisation involves the development of a rationalisation or rational system for relationship. Weber regards professionalisation as an aspect of the process of rationalisation (in (Ritzer, 1975)).

Views on 'professionalisation' differ among authors (see (Freidson, 1986; Larson, 1977; Ritzer, 1972)). The central task of professionalisation lies in the construction of a knowledge basis for an occupation.

6.7.1 Screening, a fully-fledged activity

Specific organisations have been created in order to carry out the screening and all other activities related to ethical investment, namely rating organisations. In the 1990s numerous rating organisations were set up: eight of the SiRi partners started between 1990 and 1999, one started in 1986, and two in 2000. A certain number of rating organisations became independent. For example Triodos Research detached its activity from Triodos Bank and became independent in 2000. In 2002 a second distinction was made between fact-finding and advisory services. A similar separation of activities happened in two other SiRi partners: Ethibel and Stock at Stake in Belgium (2001), and Avanzi and Avanzi SRI Research in Italy (2002).

Rating organisations have become distinctive organisations with clearly-defined activities. The activity of rating organisations has evolved over time. They all perform similar core activities with recently some diversification. An important new aspect is the advisory services. Rating organisations increasingly offer advice to financial institutions as well as corporations. Another important element that shows that screening has become a fully-fledged activity, is the development of a specific title.

Rating organisations have taken on a central role within the field of ethical investment. Over the last few years the supply chain has become clearer. Roles have been better defined that is, who provides the information, who does the screening, and who the clients are. Rating organisations have become recognised information providers on corporations' social and environmental performance. All ethical funds have turned to rating agencies. Rating organisations have become indispensable, which was not the case a few years ago. In the Netherlands, the first funds developed a department within their own organisations to carry out the screening. That was the case with Triodos Bank. Very soon banks realised that they needed a professional body to do the screening because it is expensive and requires skilled workforce, and also because specific knowledge is necessary. Rating organisations have become the norm in ethical investment. An ethical fund that did not use the services of a rating organisation might be perceived by the ethical investment community as not reliable. The development of rating organisations' services has managed to offer the clients, financial institutions, a service that the client cannot perform itself. To a certain extent, it makes financial institutions dependent on rating organisations for managing their ethical funds.

> "*Rating organisations are becoming more and more important... rating organisations are becoming more and more powerful. ...Almost all SRI funds in the Netherlands use rating information. Every body is dependent on them because funds can't gather the information by themselves*." (P2)

> "*…we felt that we needed an external expertise…. For more than a year we have invested time in finding the right research partners…"* (P4)

6.7.2 Training for sustainable analysts

Training and education are a crucial aspect of professionalisation, where skills are taught and transferred.

There are no specific schools or university programmes related to ethical investment or designed for sustainability analysts, although this is starting. Recently the University of Nyenrode opened a Chair in Socially Responsible Investment.

However universities and especially business schools organise guest lectures from professionals for the students. In 2002, a programme for corporation managers at the

Rotterdam School of Management had a specific module on ethical investment. Triodos Research was invited to give a lecture. Boston College in Massachusetts offers graduate courses in the Department of Sociology. These provide material relevant to ethical investment. The professors who teach them include Severyn Bruyn, who wrote "The field of social investment" (Bruyn, 1987), and Ritchie Lowry, author of "Good Money: a Guide to Profitable Social Investing in the '90s" (Lowry, 1991). It is interesting to note that business ethics and corporate social responsibility are growing disciplines at university level. Here are some examples of programmes: Business & the Environment, Imperial College, University of London, Responsibility & Business Practice, University of Bath; Social, Ethical & Environmental Accountability, University of Glasgow. There are also numerous professional programmes such as Social & Ethical Accounting, Auditing & Reporting offered by The National Center for Business & Sustainability or on AA1000. The UKSIF website devotes a whole page on education related to ethical investment. As of April 2002, eleven courses were listed (UKSIF, 2002).

Some specific courses are organised for sustainability analysts. For example, since 2001 SiRi Group has been organising a training program for partners' analysts every year.

6.7.3 Professional networks

There has been a rise in networks among professionals of ethical investment. The driving forces behind the networks go well beyond finding a rallying point for self-identification. They serve to exchange information, to control practitioners, to lobby, to provide mutual support. The formation of such networks is accompanied by attempts to define more clearly professional tasks. They also are a way of eliminating practitioners who are deemed incompetent by the emergent professionals (Hall, 1968) and to find social recognition (Larson, 1977). Literature on professionalisation refers to professional associations rather than networks (Hall, 1968; Larson, 1977; Wilensky, 1964). However in the case of ethical investment there are no professional associations as such but networks of rating organisations and/or financial institutions managing ethical funds.

The previous section 6.6 analysed the organisations of which rating organisations are a member. At the Dutch level, the most representative is VBDO, and at the international level Eurosif. These types of organisation have increased over time. Networks like VBDO and Eurosif play an important role in diffusing information, education, information exchange and setting norms: "*we are trend-setters…We are supported by investors, and pension funds, that give us a certain importance*" (Sprengers, 2001). For example VBDO initiated the Transparency guidelines which are now promoted internationally through Eurosif. These networks also aim at representing the ethical investment community before national governments or supranational organisations such as the European Commission (see Box 3), but also in front of corporations: "*VBDO is* *looked as being a professional organisation. It makes us more important, and gives an access to companies… Because of professionalisation you have a greater impact on companies*" (Sprengers, 2001).

Ethical fund managers are sometimes at the margin of the financial institution they work for: "*I am the only one working on the sustainability issue* " (P7); "*We are a kind of an island in this company*" (P10). Although they are most of the time supported by the management team, their work is rather different from the rest of the organisation. Ethical investment organisations or/and networks provide them with a sense of professional kinship. Durkheim believed that the main purpose of a professional association is to "associate, for the sole pleasure of mixing with their fellows and of no longer feeling lost in the midst of adversaries, as well as for the pleasure of coming together, that is, of being able to lead their lives with the same moral aim" (Durkheim in (Vollmer & Mills, 1966)). It provides a platform where professionals can develop a kind of consciousness. The networks contribute to building a professional identity, which is still somehow building up in the field of ethical investment (see Chapter 5). It has been pointed out several times that the ethical investment community wants to be seen as 'professional' not as activists or NGOs: "*If Ethical investment would ask the same requirement than NGOs, the movement would lose its power. Ethical investment must have another position than NGO. It represents investors not activist*." (Sprengers, 2001); "*Ethical investors must have a specific position. Being activist is bad for the ethical investment movement… If ethical investment is seen as an NGO it will lose its credibility and companies won't be willing anymore to talk to ethical investors...Make clear the difference between activist and investors*." (Triodos MeerWaarde Fund, 2001).

- To inform, educate and provide a European network for discussion about SRI for our membership, national SIFs and other stakeholders.
- To actively expand that network, through the support of new national SIFs and the development of existing ones
- To enable a pan-European exchange of information and expertise among members of social investment forums (SIFs) with SRI actors in those countries where there are not yet SIFs
- To support and encourage a greater sense of social accountability at a European level amongst investors - both corporate and individual - and by financial institutions.
- To initiate and publish research related to legislation, policies and practices for the integration of social, environmental and ethical issues into European financial services
- To encourage transparency, disclosure and active share ownership, with regard to corporate practise and governance, and investment objectives and processes
- To produce European responses from the SRI community to EC policy documents by gaining the information through exchange seminars, workshops and other forms of communication

Box 3 – Eurosif's aims (Eurosif, 2003)

6.7.4 Proliferation of standards of work

The power literature on professionalisation emphasises the attempt of professions to dominate their area of work (Abbott, 1991; Freidson, 1986). Professionalisation goes through a phase of codification and standardisation of the products. “And yet it must not be so clearly codified that it does not allow a principle of exclusion to operate: where everyone can claim to be an expert, there is no expertise” (Larson, 1977). Codification and standardisation are also a way to make a profession recognisable and distinct. Moreover it allows a measure of uniformity and homogeneity in the “production of producers” (Larson, 1977).

Out of earlier chapters, three events concerning the screening process as well as ethical funds embody an attempt at codification. The SiRi Group developed a Quality Management System which all members are required to follow. This System covers data gathering, knowledge management, contact with stakeholders, relationships with corporations and incorporation of feedback. It ensures a consistent approach to information gathering and analysis (see chapter 2). Although the system applies only to the SiRi partners (11 rating organisations worldwide), it is a first attempt to clarify working procedures. The objective of SiRi is to guaranty a minimum quality and to provide comparable data. The quality management system is a first attempt to formally describe what should be done when screening corporations. The system also provides a way to control the activities of each of the SiRi partners.

The second event concerns the Transparency Guidelines (see chapter 2). Originally initiated by VBDO, the guidelines are promoted at the European level by Eurosif. Their objective is to create more clarity for asset managers, research providers and other stakeholders. Signatories must provide clear and updated information about a series of aspects such as investment criteria, research process, evaluation and implementation, engagement approach, voting policy and periodical activities. The guidelines do not prescribe specific working procedures or criteria, but demand transparency of the ethical funds in order make clear what might be expected from the fund. The guidelines may result in homogenisation of the ethical funds. None of the fund wants to be seen as the laggard and therefore fund managers will carefully watch what others do and try to imitate each other. A mimetic mechanism may start, especially because there is much uncertainty about what ethical investment is.

The third event is the European Quality Label launched by Ethibel in Belgium. It is a registered collective quality label that was originally registered for the Benelux and now for all the countries of the European Union. “This label offers the investor a real guarantee that these investment funds only invest in companies selected on the basis of ethibel’s comprehensive evaluation model. When it comes to portfolio composition, these may only include shares and bonds included in ethibel's investment register." (Ethibel, 2003) Ethibel controls the methodology as well as the portfolios of funds that want to get the label. According to Ethibel "'sustainability screening' requires a special expertise that banks and other financial institutions usually do not have. By using the ETHIBEL label, banks and other providers of "sustainable" funds in Europe make it clear to their customers that their funds are regularly verified by this independent organisation" (Ethibel, 2003). As of July 2003, 16 Belgium funds and one Italian fund are entitled to the label.

These three events show a certain proliferation of standards or norms which protect the public as well as professionals against quacks.

6.7.5 Professional knowledge

There is rising concern about professional knowledge. As Larson (1977) argues, knowledge can be cultural capital from which a profession derives income and power (Larson, 1977). Knowledge permits effective practices and may help legitimate professional authority (Abbott, 1991). According to Wilensky (1964) any occupation wishing to exercise professional authority must find a technical basis for it. The screening activity is not based on high technical skills, but it does make use of specific tools to screen companies in more efficient ways, and to analyse the information collected in a more systematic way. These tools are computer programs, databases and internet search tools. For example some rating organisations have developed software programmes for databases of ethical investment information on corporate performance such as SOCRATES from KLD, or EPM from EIRIS. These can be described as tools rather than techniques.

The specificity of the screening activity is based on knowledge of a broad variety of issues such as human rights, environmental problems, or employees' rights. Such issues are continuously in development. Sustainability analysts need to be alert to all new developments. Their knowledge is closely related to CSR and sustainable development.

The concern about knowledge is visible in several ways. There are journals and newsletters in which professionals try to collect relevant new knowledge such as the GreenMoneyJournal.com, ethicalinvestor.com, or Ethical Performance. This last one describes itself as "a monthly newsletter for professionals with a corporate social responsibility or socially responsible investment brief" (Ethical performance, 2003). The number of newsletters related to ethical investment has mushroomed during the last few years. Numerous rating organisations produce their own newsletter such as SiRi Group with 'The Global SRI Reporter', or the 'What's New in Social Investment' of EIRIS. .

Conferences are one of the best ways for building a community of interest. They allow people to meet others who share their concerns, and to find out who is doing what in the field. Conference presentations are also valuable in terms of educating the attendees, fostering leadership in those presenting, and bringing the field to the attention of the media. The number of conferences on ethical investment has not ceased to increase, and the type of attendees has become more diversified (see Table 38 and section 6.5.1). In 1999, the first Triple Bottom Line conference was held in Rotterdam, Netherlands, and it has become an annual conference. In the US the 13th conference 'SRI in the Rockies' was held in 2002. It is a major annual event for SRI gathering major players of the social investment community. Those are just two examples among many.

"Not everything is interesting…"(P3)
"We try to be selective…." (P4)
"The most important" (P5)
"Since two years they are growing like mushrooms." (P9)

Triple Bottom Line Investing	P2, P3, P4, P5, P7, P8 and P9
Day of ethical investment (NL)	P2, P3, P4, P5, P8, P9
Other ethical investment conferences	P2, P3, P5
CSR conferences (BSR, CSR Europe, SVN, GRI, and other)	P1, P2, P3, P4, P5

Table 38 – Conferences and seminars mentioned by ethical fund managers during the interviews

There is an increasing number of forums and seminars being organised. Many of them aim at keeping actors of the ethical investment system updated on specific issues. For example Amnesty International organises seminars on human rights targeting those involved in assessing companies. In the Netherlands, every year a "Dag van het Ethische Beleggen" (Day of ethical investment) is organised.

There are speeches and presentations:_actors in the ethical investment field, most of the time from rating organisations and financial institutions, are increasingly often asked to talk at conferences related to sustainable development, corporate social responsibility, ethics and business, and others. These presentations are very often made available as a published document, helping to increase the knowledge base of the sector. Many speeches are available on the UKSIF website (UKSIF, 2003).

There are also an increasing number of reports, surveys and studies about ethical investment. There has been a number of general surveys on ethical investment. One might distinguish between the academic studies such as Bruyn ((Bruyn, 1987), Rockness and Williams ((Rockness & Williams, 1988), Perks (Perks, Rwalinson, & Ingam, 1992), Mackenzie (Mackenzie, 1997), and the journalistic surveys such as Sustainability (SustainaAbility, 2000), Tennant (Tennant, 1994), and numerous others. This category is quite heterogeneous. It covers surveys of the screening process, and development of the ethical investment movement.

Many practical guides to ethical investment, designed for the investing public or for fund managers, have been written in the last decade. (Lang, 1996; Mackenzie, 1993; Meehan, 1997; Sparkes, 1995; Ward, 1986) have written guides about various aspects of ethical investment in the UK. (Alperson, 1991; Brill & Reder, 1992; Domini & Kinder, 1986; Harrington, 1991; Judd, 1991; Kinder, 1993; Kinder, Lydenberg, & Domini, 1994; Lowry, 1991) have done the same in the US. There are other guides such as (Demonty, 1999) for investing in Belgium, (Alternative Economiques, 1999) in France and (Schneeweiss, 1998) in Germany. There are also books providing information on source material relating to ethical investment issues, mainly internet sources, such as in (Broadhurst, Watson, & Marshall, 2003).

Another aspect not directly related to professional knowledge but worth mentioning is public awards. "No movement is successful unless it has ways to reward its stalwarts, and one of the better ways is to provide them with public recognition for their achievements"(O'Brien, 1998). Ethical investment does have its own awards. For example the Moskowitz Prize which is given every year. Named after SRI pioneer Milt Moskowitz, this prize supports research into the various aspects of socially responsible investment including social screening, comparative performance, community development banking and direct investment. Another example is the SRI Service Award. It is given to the person who has been the most influential as regards the growth of responsible investing within the previous year.

6.7.6 Conclusion

Ethical investment, and especially sustainability screening, may not be described as a profession however it does display some of the characteristics of professionalisation.

Sustainability screening is a full time occupation with its own title 'sustainability analyst'. The practitioners do have a specific knowledge which makes them expert in screening corporations. There are no schools or programme trainings to become a sustainable analyst. There is only some training organised which refers to what Ritzer (1975) calls rational trainings. Sustainability screening is a very new activity. The know-how has been developed and is held by practitioners. Although the knowledge of sustainable analysts may be described as a potpourri of expertise drawn from a number of disciplines, they do possess a knowledge that no one outside the occupation has. They are specialists. They have the monopoly of a particular skill that has been built over time. However because their knowledge is not systematic, it may be better to describe them as experts rather than professionals.

Sustainability screening has a clientele which mainly consists of financial institutions. However the literature on professions makes a clear distinction between customers and clientele. A customer determines what services and/or commodities he wants while a client buys what the professional tells him. The professional has complete authority over the client, while “the customer is always right” (Vollmer et al., 1966). This distinction is rather extreme and may not be applicable to all professions. Rating organisations have little authority over their clients/customers. However they do have quite a sizeable influence on the fund design and the criteria used. Several ethical fund managers pointed out during the interviews that rating organisations are the ‘specialists’, the ‘experts’ and that they do trust them.

6.8 Characteristics of the Dutch ethical investment field

This chapter presented the field of ethical investment in the Netherlands. *Three main periods of time* mark the evolution of the field. The period from the 1970s until the beginning of the 1990s can be qualified as an <u>embryonic form</u> of ethical investment. One labour union fund was applying some sort of exclusionary screening. However criteria were not defined and there was no system to collect and treat the information. The second period started at the beginning of the 1990s and lasted until the end of the 1990s. Ethical investment started to attract more attention from a specific type of financial institutions: the social and ethical banks such as Triodos. The period can be defined as a <u>transition time</u> during which ethical investment was in an ambiguous position, falling between an activist activity and a commercial project. The roots of the first ethical investment funds are firmly implanted in the environmental movement. Both Triodos Bank (described in Chapter 2) and ASN are banks committed to the protection of the environment and even politically engaged (for example with the Green System). They are what institutional theorists call peripheral organisations that are niche banks at the margin of the financial sector. Institutional theorists suggest that peripheral actors are less affected by pressures for social conformity and therefore are more inclined to come up with innovation and new ideas. Moreover peripheral players are often disadvantaged by prevailing arrangements. They can benefit more from an innovation than core players (Leblebici & Salancik, 1991). The peripheral banks of the Dutch financial sector have been real institutional entrepreneurs (in reference to (DiMaggio, 1991; Rao, Morrill, & Zald, 2000)). They brought a new idea within the financial sector and managed to get it accepted by more powerful economic players, that is mainstream financial institutions. They have played an important role in getting ethical investment out of the activist image and transforming it into a viable commercial project. Triodos Bank played a particularly significant role by setting up the rating organisations. This initiative shows the willingness to detach the activity of ethical investment from its activist image and to propel it among the mainstream banking activities, which contributed to the transformation into a commercial project. This transition period was a tumultuous phase, but also a decisive and constructive stage in the evolution of ethical investment. Around 2001-2002, ethical investment clearly became a mainstream financial activity. Ethical investment is no longer a marginal activity. All major Dutch banks offer an ethical investment fund, and pension funds and insurance companies are showing serious interest. It is also increasingly the subject of regular articles in Dutch major newspapers (see Table 32).

The Dutch field of *ethical investment developed within, and in relation with, the international context* described in the previous chapter (see Annex 9). The 1990s shift at the international level is also noticeable in the Dutch case. Ethical investment in the Netherlands followed the general tendency that transformed the activity into a commercial project. However the *Dutch case remains unique* because of the role of the Dutch financial institutions in the field. In the US, citizen groups have largely promoted ethical investment. In the UK, the government encouraged its development. In the Netherlands, ethical investment has been developed by financial institutions. Contrary to the UK or US, where the first rating organisations and a number of ethical investment related organisations have been created by non-governmental or religious groups, in the Netherlands Triodos Research and the Dutch Association of Investors for Sustainable Development (VBDO) have been either initiated or supported by financial institutions. In the 1990s the financial sector faced increasing *coercive pressures* to become 'green'. These pressures came from customers who increasingly asked for 'sustainable' products and services—the impressive growth of the net profit of Triodos Bank, representing a 'sustainable' bank, reflects the increasing demand (see Chapter 2). Pressure was also applied by the government which in 1998, published its Policy Document on Environment and the Economy and in 1999 started an initiative aiming at creating a dialogue between banks and the government. This placed considerable pressure on banks to show their commitment to sustainability. These pressures provided the necessary context for banks to look for new tools and activities that could reduce the pressures. Mainstream financial institutions saw in ethical investment an opportunity to conform/increase congruence with social expectation/demands.

Ethical investment in the Netherlands is in a *process of institutionalisation*. The analysis of the empirical data unveils some characteristics of an institutional field, some element of which where pointed out in the description of the Triodos case. There is an increase in interaction between organisations in the field. The analysis in Chapter 2 of the networks of Triodos MeerWaarde Fund and Triodos Research showed that the interactions between organisations of the field increased between 1997 and 2002. This finding is confirmed in this chapter: the analysis of the TBLI conference showed that the number of attendees kept increasing between 1999 and 2002, and a number of new discussion platforms were created such as the EI organisations where actors meet. Inter-organisational structures of control and relational patterns have developed. The analysis of the relationships between actors revealed a clear structure in the field where rating organisations have taken a central role. There is an increase in the flow of information. As many interviewees noticed, conferences related to ethical investment are increasingly numerous, along with publications in periodicals, newspapers, and books. The analysis of the TBLI conference attendees showed that the number of press representatives has been increasing over the years. At the same time funds are becoming more and more transparent (see Chapter 2 on the Transparency guidelines) and corporations too (see next chapter). The activity of ethical investment is becoming increasingly standardised. The diffusion of ethical investment has been accompanied by a developing consensus about the activity of ethical investment. Ethical investment funds have rather similar criteria and methodologies. The professionalisation process has played a crucial role in the standardisation.

However other characteristics of institutional fields identified by DiMaggio and Powell (1983) and Scott (1994) have not been met. There is no sign of a mutual awareness by members of the field that they share a common meaning, there is no evolution of an increasingly clearer field boundary, and there is no agreement about the institutional logics that guide the activity. Empirical data show that fund managers are rather evasive when defining ethical investment. They are not able to provide a common definition. They also use different names ('ethical' and 'sustainable') and argue about their different meanings. Another characteristic of the Dutch field is its division between ethical investment funds, the 'old' and the 'new'. The 'old' funds represent the first banks that launched a fund, that is the peripheral financial institutions, and the 'new' funds are those launched later, principally by mainstream financial institutions. When mainstream banks started to get involved in the field of ethical investment, in the late 1990s, the activity was still under development and therefore poorly understood. There were numerous ambiguities regarding methodology and criteria. This encouraged a mechanism of mimetism: managers of the 'new' funds copied what the 'older' funds were doing. However the mimicry concerned only the criteria and methodology but not the values. Mainstream financial institutions did not want to be associated with the 'deep green' movement. They therefore took care to differentiate themselves from the 'old' funds that they described as "*moral preacher*" or "*fundamentalists*". This division has created some tension within the field and points at different logics that guide the activity. However there are some signs that indicate that 'old' funds are moving towards the general tendency. One of the most significant examples is the change of the name of the fund. One manager of an 'old' fund said that they were thinking of replacing 'ethical' by 'sustainable'. The presence of tensions shows that the development of an institutional field is not a smooth process. It involves conflicts at the micro level which are not always perceptible at the macro level (at the international level for example).

This chapter investigated the Dutch field of ethical investment with a special emphasis on financial institutions due to their crucial role in the institutionalisation process. The field displays a number of elements, but not all, that are characteristic of institutionalisation. This suggests that the field is still in formation and not fully institutionalised.

After the investigation of the macro level in Chapter 5 and the meso level in Chapter 6, the next chapter will go back to the micro level of analysis and explore corporations' responses to ethical investment.

Chapter 7 – Corporations’ responses to ethical investment

7.1 Introduction

The two previous chapters provided an overview of the emergence and constitution of the ethical investment field internationally. Chapter 6 revealed the uniqueness of the Dutch case especially due to the role of the financial institutions in setting up the field. The analysis of the Dutch field showed that several elements of institutionalisation are met but not all. As was already pointed out in Chapter 5, this suggests that the field is still in formation and not fully institutionalised.

Chapter 7 focuses on one specific group of actors: corporations. In particular, it investigates corporations’ responses to ethical investment. Six Dutch stock-quoted corporations are investigated, making use of Oliver’s framework (see description in Chapter 3). Oliver identifies five institutional factors describing the nature of institutional pressures that motivate strategic responses: cause, constituents, content, control, and context. These factors determine the strength of institutional pressures that organisations face. According to Oliver organisations respond differently to these pressures. For the purpose of the research, Oliver’s factors have been re-specified according to the characteristics of the field of ethical investment and for each factor one to two relevant elements have been defined (see Annex 11 for a description).

Section 2 of this chapter provides a short presentation of the cases. Section 3 explores how corporations’ managers perceive ethical investment: how they describe it and what they say about it. This section is based on interview analysis. Section 4 investigates specific elements related to the CSR approach of the six companies. Data for this section have primarily been collected from the companies’ publications. Section 5 focuses on sustainable indices. It combines data from both the interviews and publications. Section 6 analyses the strategic responses of the six corporations investigated.

7.2 Presentation of the case studies

This section presents the six companies analysed in this thesis. The six cases are stock quoted corporations with an average turnover of 43 billion Euro (ranging from more than 150 to 4 billion Euro), and an average number of employees of 85,137 (ranging from more than 250,000 to 30,000). They are all among the leading companies in their respective sectors, both nationally and internationally.

For each case study data have been gathered through interviews with managers (see Table 39), publicly available information, websites, and Triodos Research company profiles. The company sample has been selected according to a methodology described in Chapter 4. The sample consists of companies from three different sectors, Oil and Chemicals, Food, and Media. The sectors have been carefully chosen in order to include in the sample companies from sensitive sectors (Oil & Chemicals and Food) and companies from less sensitive sectors (Media). For a definition of ‘sensitive’, see Annex 3. Each sector contains one company listed on at least one of the sustainable indices (FTSE4Good or/and Dow Jones Sustainability Indices), and one company that is not listed (see Table 40).

Company	**Sector**	**Interviewees**	
		Reference	*Category*
C1	Oil and Chemicals	P11:	CEO
		P12:	Corporate Communication
C2	Oil and Chemicals	P13a:	Investor Relations
		P13b:	Environmental manager
C3	Food industry	P14:	Corporate Communication
		P15:	Environmental manager
C4	Food industry	P16:	Corporate Communication
		P17:	Environmental manager
		P18:	Investor Relations
C5	Media	P19	Corporate Communication
C6	Media	P20	Corporate Communication

Table 39 – Corporation interviews: overview

Note that inclusion into the Triodos MeerWaarde Fund has not been a criterion of selection for constituting the sample. However it is relevant to take this aspect into account in the analysis of the case studies. Figure 25 shows Triodos Research’s sustainability rating of the six cases studied. The rating does not take into consideration exclusionary criteria but is based on comparative criteria. The total average of the six companies between 2001 and 2002 increased by 11.5%. Two of the companies, C3 and C5, have a lower rating in 2002 than in 2001. C5 has the highest increase (+42%). C1 and

C4 come significantly out as the best companies. There are no significant differences between the other four companies, except C5 in 2001.

In the rest of the chapter, managers that have been interviewed are referred to by their reference and the company they belong to (for example P11/C1).

	C1			C2			C3			C4			C5			C6		
	F	D	T	F	D	T	F	D	T	F	D	T	F	D	T	F	D	T
1998			No			No			Yes			No			Yes			Yes
1999	-	Yes	No	-	No	No	-	No	Yes	-	Yes	No	-	No	Yes	-	No	Yes
2000	-	Yes	No	-	No	No	-	No	Yes	-	Yes	No	-	No	Yes	-	No	Yes
2001	Yes	Yes	No	No	No	No	No	No	Yes	Yes	Yes	No	No	Yes	Yes	No	No	Yes
2002	Yes	Yes	No	No	No	No	No	No	No	Yes	Yes	Yes	No	Yes	Yes	No	No	No

Table 40- Corporations status in the FTSE4Good and Dow Jones Sustainability Indices, and in the Triodos Meerwaarde Fund, 1998:2002 (as of September of each year)

F = FTSE4Good Europe and Global
D = Dow Jones Sustainability Indices World and Stoxx
T = Triodos Meerwaarde Fund

Corporation C1

Corporation C1 markets oil, natural gas, and chemicals. Since the launch of the FTSE4Good and Dow Jones Sustainability indices, the company has been listed as one of the best in its sector. However Triodos MeerWaarde Fund has always excluded C1 from its investment universe because of its major involvement in one of its exclusionary criteria, oil & gas extraction. Triodos Research screened C1 for the first time in 2000.

This late screening is due to the fact that until 2000 Triodos Research had for unique client Triodos Bank: the company was automatically excluded because of its significant involvement with exclusionary criteria. Therefore no profile was produced. In 2000 Triodos Research acquired new clients with different criteria than Triodos Bank which did not exclude C1. As a result, since 2001 company profiles are produced on a yearly basis.

Corporation C2

Corporation C2 is a chemicals manufacturer. C2 has been selected in none of the sustainable indices, nor in the Triodos MeerWaarde Fund. The main reason for excluding C2 from the Triodos fund is its involvement in the production of environmentally dangerous substances. Triodos Research's first profile dates from 2000. Since then yearly updates have been carried out.

Corporation C3

Corporation C3 is active in the food products sector. C3 has not been selected in any of the sustainable indices. The company has, however, been selected in the investment universe of Triodos MeerWaarde Fund. The company is not involved in any of the exclusionary criteria of the fund and is among the 50% best of its sector according to the sector study. Triodos Research carried the first screening of C3 in 1998. Since 2000 the profile has been updated yearly.

Corporation C4

Corporation C4 is active in the food products sector, just like C3. The company has been selected in both sustainable indices FTSE and Dow Jones but excluded from the Triodos MeerWaarde Fund. The main reason for excluding C4 from Triodos MeerWaarde Fund is its involvement in one of the exclusionary criteria, animal testing (non-medical related). Triodos Research produced the first company profile of C4 in 1999. Since then Triodos Research has carried out yearly updates of the company.

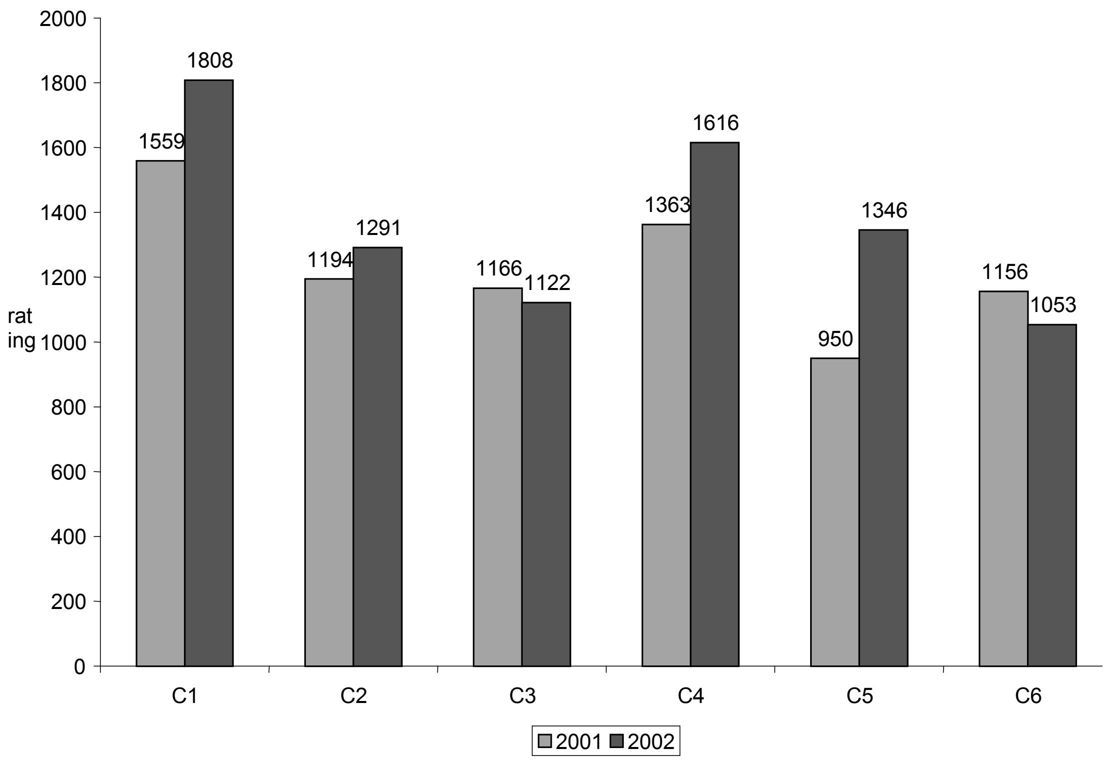


Figure 25 – Sustainability rating of the six cases 2001 and 2002 (source: Triodos Research)

Corporation C5

Corporation C5 is active in the media sector. The company has been selected in one of the sustainable indices, the Dow Jones, and in the investment universe of Triodos MeerWaarde Fund. The company is involved in none of the exclusionary criteria of Triodos bank and is amongst the 50% best of its sector regarding sustainability performance. Triodos Research screened C5 for the first time in 1999. Since then Triodos Research has carried out yearly updates of the company.

Corporation C6

Corporation C6 is also active in the media sector. The company has not been selected in any of the sustainable indices. However it has been included in the investment universe of Triodos MeerWaarde Fund. The company is involved in none of the exclusionary criteria of Triodos bank and is amongst the 50% best of its sector regarding sustainability performance. Triodos Research screened C6 for the first time in 1999. Since then Triodos Research has carried out yearly updates of the company.

7.3 Perception of ethical investment

This section presents managers' views of ethical investment. The analysis is based on the data collected during the interviews.

7.3.1 Managers' views of ethical investment

Definition

Corporations' managers show a great deal of confusion as to what ethical investment is. Interviewees could not provide a definition of ethical investment. P18/C4 quoted a definition given in a booklet published by UBS, Sustainability Investment, the Merits of socially responsible investing (Larry Chen, 2001) and explained that *"basically… it takes into consideration not only the risks and the return characteristics of an investment but also the economics, environmental and social ramifications of an investment. And they try to incorporate all of these in a decision making process"* (P18/C4). Another interviewee from C2 said that it "*very much looks into the three Ps. So they are not only looking at your profitability but also if you are doing sufficiently on environmental aspects and also on other aspects*" (P13b/C2). Managers complained that ethical investment does not present a singular and clear definition and they often have difficulties to say what it is all about (see Box 4).

P18/C4 made the remark that ethical investment does not differ much from regular investment: "*I think that they use at a certain extent the same investment criteria as the main stream funds, but they put some sort of additional screens on top of that" (P18/C4).*

But an important aspect of ethical investment is the development of the sustainability indices, the FTSE4Good and Dow Jones Sustainable Indices. Most of the interviewees reduced ethical investment to the sustainability indices. The creation of the indices has had a strong impact on companies. It is clearly the most important aspect of ethical investment because it publicly displays companies' sustainability performance. All managers consider it a positive thing to be listed on the sustainable indices. However some of them find it more important to be listed than others. Because of the special interest corporations showed towards sustainable indices both during interviews and in their reports, a later section is specially devoted to that topic (see section 7.5).

- "*different views... different criteria….that's a problem"; "We all have different views on what it [ethical investment] means*"…(P11/C1)
- "*I doubt if they have a very clear view themselves"…" It is not always clear what they talk about*" (P14/C3)
- "*It is not universal. They don't look at it the same way"…"the problem in this area [of ethical investment] a lot is not clear for people"…"There are quite a lot of definition [of ethical investment*" (P18/C4)
- "*It is difficult to give a single concrete answer. I think sustainable investment is investment in… in those issues, which…there is not just one thing*" (P17/C4)

Box 4 –Ethical investment a confusing phenomenon for corporations' managers

Ethical investment in society

Corporations' managers are not at all surprised by the increasing interest of investors in ethical investment. Ethical investment is regarded as a "*logical development in the present society*" (P11/C1), "*it is a reflection of trends in society*" (P13a/C2), "*it is a trend*" (P14/C3 and P18/C4). People show increasing interest in social and environmental issues; therefore it seems normal that they also display this interest when investing. P13a/C2 remarks that ethical investment reflects "*the direction towards which the society is going, and nothing is not going to stop it*" (P13a/C2).

Nevertheless, there is a slight difference between the six companies. C1, C2, C4 and to a certain extend C3 integrate ethical investment in a more general societal awareness and demands related to social and environmental concerns. They consider it "*normal*" (P11/C1) that society questions corporations: "*I think that if you, as a company, accept that your impact on the society has increased, you have to accept the consequences of that…*" (P11/C1). The other two companies, C5 and C6 do not explicitly make a connection between ethical investment and a more general and societal tendency.

Size

All interviewees agreed that ethical investment represents a very small percentage of the total investment market:

> "*The amount of capital involved in the so-called ethical investment category is relatively small… It is a minor part*" (P12/C1)
>
> "*At this moment the total amount of ethical funds is relatively low compare to all other funds available* "…"*Even if you don't want to go in that direction…there is still sufficient funds available to do your business*"…"*It can never be so that we are cut from investment because of….[ethical investment]"*…"*Ethical investment is a very small part of the total investments*." (P13b/C2)
>
> *"It is a couple of percentage*" (P13a/C2)
>
> "*Let's be honest, SRI is still an extremely small field, ok growing rapidly, but still small compare to the total size of mainstream investment*" (P17/C4)

Nevertheless they all mentioned that it is a growing phenomenon, especially since 2000. Their appreciation of the growth was based on different aspects. Managers from C1, C2 and C4 noticed the increase of the ethical investment market, while managers from C3, C5 and C6 noticed the increased number of questionnaires from the ethical investment community. A number of managers mentioned the recent interest from pension funds and expect this to make a significant change.

> "*It is, for sure, a trend and it will increase*"(P13b/C2)
>
> "*Some of the big funds are obliged to invest a certain percentage in the green funds. Predicting that the trend is continuing, then all funds will have to make this kind of investments. [It] is increasing and gaining importance*." (P13a/C2).
>
> "*You see that there is quite a lot of money going into this kind of funds, the 'duurzame ontwikkeling fonds'. And also and already with big banks*."(P16/C4).
>
> "*It is definitively more and more happening…I think that it is becoming much more active…Ethical investment is a fast growing segment in the market*"…"*Even if the ethical funds in themselves are very small, they all have it, and some are more public about it than others, but you see that it is starting to influence the rest*"(P18/C4)

Difference between ethical funds

Some of the interviewees (P12/C1; P14/C3 and P17/C4) noticed that ethical funds are not all the same. They made a distinction between the 'old' and the 'new' funds. P12/C1 favoured the 'new' funds (he called them the 'sustainable' funds) because they are "*more* *relative, organic and practically inspired*", while the 'old' funds (he called them the 'ethical fund') are the "*hard core…[and] the fundamentalists"…"much more religiously inspired and much older than sustainable development investment*" (P12/C1). On the other hand P14/C3 seemed to support the 'old' funds because banks engage in such activity "*out of conviction*" and do not "*only us[e] it as a marketing tool*" (P14/C3).

Ethical investment and sustainable development

There is quite a mixed feeling among managers concerning the way the ethical investment community translate sustainable development/CSR and assess companies. Some like P11 and P12 from C1 made clear that corporations and ethical investment do not share the same views on sustainability: "*they [ethical investment] have their view of what they consider as sustainable or ethical"* (P11/C1), *"I think that the philosophy of sustainable development, as it is becoming visible now amongst the broad variety of industries and businesses, is still something else than ethical investment*" (P12/C1). Note that C1 is the only company of the sample that presents a clear view on what is sustainable development and its implications for the business. P14/C3 and P17/C4 are doubtful. According to P14/C3 "*it depends on the approach*", and P17/C4 said: "*it gives an indication but well the system never gets out something that is more wise than what you put in, silly things in, silly things out*". Other managers were more positive when asked whether screening from rating organisations provided a good representation of their company's sustainability: "*they do have good points. All the things are, let's say, the ones you should strive for*" (P13b/C2); "*I think, in our situation, mainly yes. But I think it is because we are very open*" (P18/C4); "*I must say that 9 out of 10 times they were right*"…"*It helps you in the way that you know more what the outside world expects from companies*" (P20/C6).

Shareholder engagement

Shareholder engagement in the Netherlands is very limited. A number of managers interviewed acknowledges the increasing interest of shareholders in social and environmental issues: "*If you go back perhaps 10 to 15 years, in annual/general meetings of companies shareholders would question management about the costs of following the sustainable investment principles, the costs of being socially responsible, and they would say 'well are you not doing too much, having a negative impact on financial results'. What you see nowadays, is that shareholders question companies about the amount of efforts they put into social acceptance and sustainability…most shareholders nowadays accept that in order to be successful as a company you have to do more than come up with good financial results'*"(P11/C1). However, the number of questions asked during the Annual Meetings is very limited and they are usually asked by VBDO.

Critics and problems related to ethical investment

Managers from the Oil & Chemicals and Food sectors complained about the exclusionary criteria. P12/C1 disagreed with the exclusion of fuel energy and P13b/C2, P14/C3 and P18/C4 complained about the animal testing criteria. All three noticed some tension between what was requested by the exclusionary criteria and what they think is possible and/or sustainable. P12/C1 described the exclusionary criteria as an "*easy play*": "*Their [ethical investors] route is an easy one. They can make this choice because others are doing other choices*" (P12).

C1, C2, C3, and C4 complained about the increasing amount of questionnaires from the ethical investment community. This was not raised by managers from C5 and C6. These last two companies are of a smaller size than the first four and they are from the media sector, thereby less likely to infringe the exclusionary criteria. The increase in questionnaires leads certain companies to carefully select which questionnaires they are going to answer: "*we have the discussion on how important the sender of the questionnaire is. And depending on the importance of the sender we fill it in or not. We have a very pragmatic approach because otherwise it could be busy the all day filling in the questionnaires. That's not our prime job*" (P13b).

Managers have raised other criticism, especially about the questionnaires: they are too theoretical and sometimes disconnected from business reality (P13a/C2); questions are difficult to answer because not adapted to the specific business the company is in (P13a/C2; P14/C3; P18/C4; P19/C5; P20/C6) or because questions are not clear (P14/C3). Nevertheless managers consider it important to answer the questionnaires, and generally they do.

What do managers think they are expected to do

According to a large majority of the interviewed managers, the recipe to get a good ranking depends on the following elements: have business principles, show transparency and openness with stakeholders, disclose information either in the annual report or in a separate CSR report. Business principles have been especially claimed by C5 and C6. They both hope that by establishing business principles they will answer a large number of the ethical investment community questions. Only C2 believed that providing results such as quantitative data and real progress would help them to get a better rating.

	Description of ethical investment	Sustainability Indices	What do managers think they are expected to do	Other
C1	- Logical development in the present society, "it is a legitimate concern" (P11) - Confusion as of what is ethical investment: "not a firm singular definition" (P12) - Difference between funds : from "excluding everything...fundamentalist funds" to " a more wider view... relative and practical oriented funds" (P12) - Small phenomenon but growing - Ethical investment is perceived as a "test of sustainability" (P11) - Corporations and the ethical investment community have different understandings of the concept of sustainable development: "sustainable development...is still something else than ethical investment" (P12)	- Represent society expectations, "expression of contemporary view" (P112) - "they are effective life…but they don't have the ultimate wisdom either" (P11) - Important phenomenon - Enhance reputation and is "an expression of being visible" (P12) - Coverage in reports and website - Award - External check	- To have a strong identity: "you have to establish clearly your own identity…this is what I can be held accountable for" (P11) - Business principles represent want society can expect and not expect fro the company… it does not solve the problem 100% but at least it states clearly where you stand and what you are accountable for" (P11) - Dialogue with stakeholders - Transparency	- If ethical investors ask information the company does not have "sorry we don't have them and we won't make them up for you" (P12)
C2	- Small phenomenon but will become important in the near future ("big funds are obliged" (P13a), increasing demands) - Good representation of how sustainable is the company: "they have good points…the things you should strive for" (P13b)	- Represent the best companies in general - Being listed is seen as "a result" (P13b), sign of achievement - Hope to be listed in the near future - Being listed is a "question of reputation" (P13b) - Being visible	- Disclose lots of information - Require a rapid change and organisation to collect information - To show results	- "We want to do it our way" (P13a) - Do not answer all questionnaires, chose the "the mot important ones" (P13a)
C3	- "It is a trend that started 10 years ago" (P14) - Confusion as of what is ethical investment: "it is not clear what they talk about" (P14) - Difference between ethical funds: value vs. marketing oriented, but most of them do it for marketing reasons - Ethical funds have their own criteria - Disagreement with the exclusionary criteria	- "I think it is not yet clear what it is" (P14) -"the problem is when you are thrown out, it can harm you …but otherwise I don't know" (P14)	- They ask lots of information: "if you don't write it in your annual report that means you don't do anything"; "..want more information….it is never enough" (P14) - It is important to show "your openness and to be in dialogue with all your stakeholders" (P14) - Follow the GRI guidelines	- "we think it is important [to answer the questionnaires" (P14)
C4	- Small phenomenon but growing: "More and more questions from big investors", "it is developing and developing" (P16) - Confusion about what is ethical investment: "it is difficult to single out one definition" (P17); "there are quite a lot of definitions" (P18)1 - Screenings "give a good indication" but it depends: "silly things in, silly things out" (P16); "it gives a good picture because we are very open" (P18) - disagreement with exclusionary criteria	- Awards: "we are proud of" (P16) - "free publicity stating that companies do well in this area" (P18) - Social recognition: "a reflection of recognition" (P18) - Important phenomenon - External check	- To be transparent - To show "measures" and "actual footprint in society" (P16) - Follow the GRI guidelines - Screening focuses on "initiative you have and procedures in place... it is done relative to other companies" (P18) - "we have strong principles....we try to raise the standards for ht industries and motivate them to join" (P16)	- "It is our interest that they understand our company well" (P18)
C5	- Confusion about what is ethical investment - Recent phenomenon (from the last one or two years) which will stay - questions not adapted to the business	- Good for employees - "It is not an advantage being listed but not being maybe a disadvantage" (P19) - The interviewee didn't know if the company was listed	- Lots of information - Business principles: "I hope that with these business principles we can at least answer half the questions" (P19)	- "We try to answer as much as possible" (P19)
C6	- Not perceived as an important phenomenon - "I don't remember [what questions they asked]…something about not only financial information" (P20)	- The interviewee didn't know if the company was listed: "I am not sure…I think we are part of the Dow Jones, but I am not sure…at least we filled in some questionnaires, I think" (P20) - Something for the future	- Investors want "business principles or a code of conduct" (P20); If we are not [listed on the sustainable indices] it is because we are just developing our guiding principles" (P20) - "we are publisher, we are not polluting anything" (P20)	- "will answer in the future" (P20)

Table 41 – Overview of the managers' perception of ethical investment

7.3.2 Case comparison

Table 41 offers an overview of managers' perceptions of ethical investment. Two groups of companies can be distinguished: on one hand C1, C2, C3 and C4 and on the other C5 and C6. Companies from the first group perceive ethical investment as a phenomenon representative of a general societal trend and part of this tendency. Also all interviewees agreed that it is still only a small percentage of the stock market, and pointed at the growing interest from shareholders, especially pension funds. All four companies display some interest in sustainable indices. Although they do not consider it a "goal" to be listed, they regard being listed as a positive element for the company's reputation. Companies from the second group react differently. They do not connect ethical investment to a general and societal tendency. They regard it as a growing but not very significant phenomenon. As regards sustainable indices, interviewees did not show any specific interest in being listed. They were rather indifferent.

The distinction between the two groups suggests a difference between the sectors of activity. The first group consists of companies from the Oil & Chemicals (C1, C2) and Food (C3, C4) sectors, both of them sensitive sectors. The second group is composed of the two companies from the Media sector (C5, C6).

7.3.3 Ethical investment, an element of CSR

The general tendency, and especially in the cases of C1, C2 (Oil & Chemicals) and C3, C4 (Food), is to consider ethical investment as an element of 'a' segment of the emerging field of corporate accountability and CSR. Interviewees talked about CSR rather than ethical investment. They had difficulties in distinguishing it from CSR. Typically when asking questions about 'ethical investment', managers responded by talking about 'CSR'.

This became even more obvious when looking at who or which unit of the corporation is responsible for answering questions from the ethical investment community. Most of the people involved are from public affairs, corporate communication and investor relations units (see Table 42). These same units, especially corporate communication and public affairs, are also responsible for preparing and writing companies' reports and brochures.

C1	Public affairs
C2	Corporate communication and Investor Relations
C3	Corporate affairs and Corporate communication
C4	Corporate affairs
C5	Corporate communication, and sometimes Investor Relations
C6	Investors relations

Table 42 - Who answer the questions from the ethical investment community?

Ethical investment is categorised as a 'corporate affair' issue. Harlow defines this function as "a distinctive management function which helps establish and maintain mutual lines of communication, understanding, acceptance and cooperation between an organisation and its publics; involves the management of problems or issues; helps management to keep informed on and responsive to public opinion; defines and emphasises the responsibility of management to serve the public interest; helps management abreast of and effectively utilise change, serving as an early warning system to help anticipate trends; and uses research and sound and ethical communication techniques as its principal tools" (cited in (Hutton, 1999)).

In the six companies studied, corporate affairs is at a high level in the organisation's hierarchy and is in direct contact with the executive board. C1 established the unit a long time ago (no date available) and C3, C4, and C5 in the 1990s. In C2, Investor Relations is in charge of the corporate affairs function. And in C6, P19/C6 said that they are going to set up a working group within the company devoted to CSR. It is also interesting to note that corporate communication and investor relations tend to go together: *"Investor relations were before part of the treasury department, but we decided that the information part of the Investor Relations was becoming so important that it was logic to combine it with corporate communication*" (P19/C5). As noted P16/C4: "*In the Investor Relations department it has not been the highest priority to deal with this kind of investors. So it has been left to the corporate affairs people who happen to work on CSR*".

The ethical investment community seems to be submerged within a wider field and does not come out distinctly. It is difficult to ascertain whether the ethical investment community is considered as 'a' stakeholder among others or 'an' activity among others. As a stakeholder, it is not yet significant enough and as an activity is not different enough from the wider field of CSR. It makes the analysis difficult because ethical investment is not directly perceptible in the managers' discourse.

7.4 Corporations' assessment

As noted in the previous section, managers consider that there are three important elements in order to get a positive screening by rating organisations: business principles, transparency and openness with stakeholders, and reporting. This section analyses the companies' approach regarding these three specific elements plus two others: the constitution of an ethical committee within the company and the company's commitment to sustainable development.

These five elements are aspects according to which corporations are viewed and judged by outside stakeholders. Sustainability rating (from rating organisations) is for a large part based on these elements. First of all, they represent crucial sources of information (especially reports), and secondly they are regarded as a reflection of a company's commitment to sustainability.

In this section companies are assessed on each of these five elements. The assessment is based on the company's annual reports (financial, environmental and sustainability reports) from 1996 till 2002 and company websites (screened in 2003).

7.4.1 Analysis

Business principles

Interestingly all six companies have (or are going to, for C6) established Business Principles. C1 and C4 were the first companies to make these publicly available, respectively in the early 1970s and in 1998. However C1 revised its Principles in 1997 and C4 in 2001, in both cases in order to include – among other things – their support for human rights. The revision of C1's business principles also included support for sustainable development.

C2, C3 and C5 all published their Business Principles in 2001. As for C6, P20/C6 announced that the company is working on a document and should publish it in 2003. Stakeholder pressure has been the main stimulus for C3, C5 and C6 to set up or make publicly available their Business Principles. Interviewees said that a number of stakeholders were asking about their Business Principles.

Business principles are presented as the "*values*" of the company. P19/C5 and P20/C6 see business principles as a way to answer the increasing number of questions from stakeholders and especially from shareholders.

> "*I hope that we can do this more efficient from now [answer to ethical investment and stakeholders questions], as we are now in the process of finalising the text of the business principles… and I hope that with these business principles we can at least answer, I hope, half of the questions*" (P19/C5).

> "*They are asking you again and again and they will come up with these questions about business principles, and after a while you still don't have business principles, I think than yes it will harm you. Because nowadays it is becoming more and more important. You have to formulate them, to come up with them*."(P20/C6)

> "*The main thing is that at this moment we don't have any external guidelines, that we communicate outside, but this morning I had a discussion with the CEO about*

> *CSR and I made some suggestion and he said OK to start with it. So I expect within this year we will have guiding principles and we will communicate it to our employees and also to the external world*." (P20/C6)

Ethical committee

Four companies, C1, C2, C3 and C4 have or are going to (C2) have an Ethical Committee. The role of these committees is to advise the company on sensitive issues such as GMOs and to inform the company about emerging issues in society.

C5 and C6 do not have an Ethical Committee and do not intend to set up one in the near future. They do not see the necessity of having such a committee.

Reporting

There is a clear distinction between two groups of companies: on one hand C1, C2, C3 and C3 (Oil & Chemicals and Food sector), and on the other C5 and C6 (Media sector). C1, C2 and C4 all published their first Environmental Report in 1996. C3 did this in 1992 and 1993 but stopped because "*nobody asked for it*" (P15/C3). C2 and C4 were the first and only companies of the sample to publish a Sustainability report, respectively in 1997 and 2000. C3 announced in 2002 that they were working on a Sustainability Report which should be published in 2004. These four companies, even if they do not have a Sustainability Report, extensively report (C1 and C4) or at least mention in their annual reports and/or websites (C2 and C 3) social and environmental matters. Since 2000 all four have integrated the sustainability dimension in their corporate objectives.

C5 and C6 do not report on sustainability issues. However in 2001, the annual report of C5 started to refer to "social responsibility" and to report on aspects such as the environment and social initiatives.

Transparency and openness with stakeholders

The issues of transparency and openness are very closely related to reporting. These two notions have been looked at in terms of what companies say about being transparent and open. This section does not assess how transparent and open companies actually are.

Transparency and openness have become increasingly popular among the firms in the sample. All six claim to be transparent and to seek dialogue with their stakeholders. They all recognise that businesses "*need*" to be transparent. They consider this as a requirement and do not question it.

Managers argue that being transparent and open is important for several reasons:

- It enables the company to "*find what society expect from the company and work with that*" (P11/C1), to "*know what people feel and think about your business and what they want you to do or to be" (P14/C3);*

- It is a way "*to avoid negative impact on your financial results*" (P11/C1); not to "*be seen as an irresponsible company*" (P16/C4).
- It is a way "*to give the impression that really something is happening [inside the company]*" because "*if you don't write about it in your annual report, that means that you don't do anything*" (P14/C3); *"If you are not transparent people will not know, and when they don't know they will bang at your door and say 'Hey guys you have a problem in Chile or Australia'…it will have an article…*"(P16/C4)

Commitment to sustainable development

Sustainable development is a new concept for most of the companies in the sample. Three of them, C2, C3 and C5 first addressed the concept in their annual reports around 2000 and 2001, and C6, as late as 2002, had not addressed the concept. C1 and C4 were concerned about sustainability much earlier. Both companies claimed their commitment to the principles of sustainable development as early as 1996.

In general all the companies refer to the Brundtland report to define sustainable development. But as P11/C1 pointed out, the concept is clear but "*How do you do that in practice? …That's a very difficult question. In my view, it is very difficult to answer in very concrete terms*"…"*to what extend can you, indeed, apply what I will call the sustainability principles"…"[it] is easily said and much more difficult to really to do*" (P11). P11/C1 and to a certain extend P17/C4 are the only ones raising the question of the operationalisation of the concept. Other managers did not seem to view this as a problem.

All six companies consider sustainability as well as CSR as important aspects of businesses; "*Sustainability is a topic that plays an increasingly important role within the framework of the company's activity"* (C3, 2001). Some describe it as "*a license to operate*" (P11/C1 and P20/C6), or "*the social acceptance of the way… of the type of business you are involved in and the way it is conducted*" (P11/C1) or "*it is necessary for the continuation of our business*" (P18/C4). CSR is also considered as the necessary element to be profitable in the long term: "*the winners of the future are actually the companies that are quite active in the CSR area…[they] are the companies that will in the longer term have better performances*"…"*we believe in order to get in the long-term profitability it [CSR] is necessary*"(P18/C4). However none of the interviewees consider it as a competitive advantage. P17/C2 pointed out that sustainability is an important element at the corporate level but not at the production level, arguing that sustainability is not an argument for selling products. This point was also made by other managers such as P13a&b/C2 and P14/C3.

C2, C3, C5 and C6 remained very vague as to what sustainability is and what it implies. C1 and C4, on the contrary, offered a very clear view of what sustainability means for their companies. It is worth noting that their views have evolved over time. In 1996 and

1997, C1 and C4 displayed some uncertainty as to what sustainability is, and what and how to report about it. But very quickly they developed their own perspectives and translations. Both companies have adopted a stakeholder approach to sustainability, however in a slightly different perspective. C4 defines sustainability through discussions with its stakeholders. C1 has established a constant dialogue with its stakeholders not to define what sustainable development is, but to assess whether or not its actions, practices and policies are accepted by the stakeholders: "*To a large extend you have to rely on the reaction you get from your stakeholders when it comes to proposing such a decision. Then you have to judge whether there are in agreement or there are in disagreement. If there are in disagreement, you have to ask the question 'Can I do something about it?'*" (P11/C1).

7.4.2 Changes between 1996 and 2002

Companies have been assessed on each of the five elements described above. They have been given a score between 0 and 1, which is explained in Table 43. 'Zero' means that the company does not show any evidence of this aspect and 'one' means that it does. The aim is to analyse companies changes concerning these specific elements between 1996 and 2002.

Figure 26 represents the results of the assessment per company and Figure 27 shows aggregated results per company (cumulating the four elements) and per element (cumulating the six companies).

There is a clear difference between companies. C1 has been the first company to display the five aspects assessed (in 1997), followed by C4 (in 2000). These two companies are the most advanced in terms of reporting and stakeholder dialogue. They are considered by the FTSE4Good and Dow Jones Sustainability Index as the best of their sectors by far. One should note that C1 is excluded from the Triodos ethical funds, whereas C4 is included. The companies are from two different sectors: C1 from Oil and Chemicals and C4 from Food. C3 is expected to cover four elements in the near future. The three other companies, C2, C4 and C5, are far behind; but all three are expected in the near future to show some improvement. This suggests a difference per sector in the sample of companies investigated, where Oil & Chemicals and Food companies offer the best performance and Media companies the worst.

Business Principles is element that gets adopted the fastest by all six companies. In the 'near future', Business Principles is the only element which is expected to be adopted by all six companies – while in 1996 only one company had business principles (C1).

The two elements the least adopted are reporting practices and the ethical committee. The first one, reporting, is due to a methodological problem. All six corporations increasingly report on issues related to sustainability/CSR. However in order to obtain a '1' in the assessment, they need to have a sustainability report. Therefore the increase in reporting is not well captured by the data. Nevertheless, in 2000, 2001 and 2002 one can see a noticeable change in corporations' reporting, especially those that were lagging behind (such as C3, C2, C5 and C6). As for the ethical committee, it is a typical element of the Food sector and to a lesser extent of Oil & Chemicals. Companies from the Media sector do not intend to set up such a committee. This may be explained by the fact that they do not have to debate about very sensitive issues such as GMOs or non-renewable sources of energy. They say themselves that they are in a non-polluting business: "*people know being a publisher you don't pollute*" (P20/C6). They therefore do not feel the need to get advice from an external panel. In the near future the four companies of the two sensitive sectors are going to have such a committee.

Aspect considered	Code	Categories		
Business Principles	BP	0	No	The company does not have any publicly available business principles
		1	Yes	The company has publicly available business principles
Ethical Committee	EC	0	No	The company does not have an ethical advisory committee
		1	Yes	The company has an ethical advisory committee
Reporting	R	0	Nothing	No social or environmental report or information on the website, neither separately nor as part of the annual report
		0.5	Environmental or Social report	One of them: social or environment report (web, annual report or separate).
		1	Sustainability report	Sustainability report: social and environmental
Sustainable Development	SD	0	No commitment	No mention of sustainable development in the corporate objectives/strategy or purposes
		0.5	Partial commitment	Mention of SD but: it is not clear what that means for the company; it is only a sub-issue, not really part of the company's objectives
		1	Full commitment	SD is part of the corporation strategy, objectives, or purpose. The company considers it a priority
Transparency and openness	T&O	0	Nothing	Transparency and openness are not an issue
		0.5	Secondary or ambiguous position	Transparency/openness are vaguely mentioned
		1	Primary	Transparency/openness are emphasised in the company's objectives/purpose/strategy

Table 43 – Scores for assessing the five elements

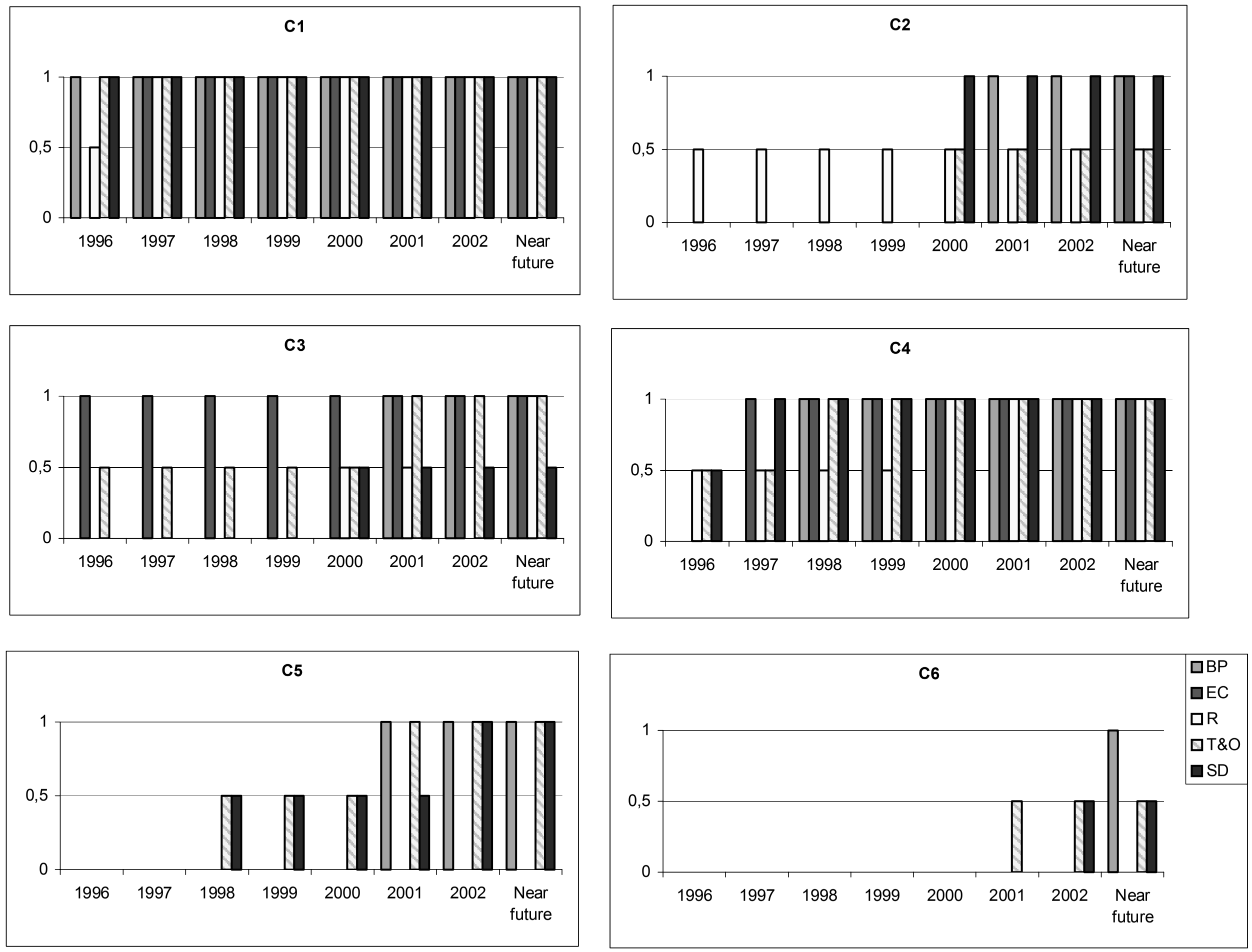
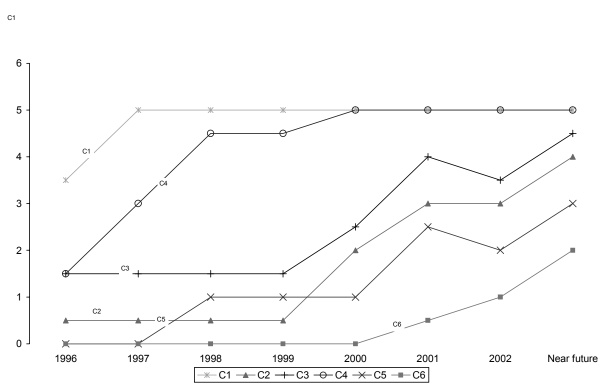


Figure 26 – Assessment per company

1999-2001 was a period that recorded a number of changes. Business Principles, Transparency & Openness, and commitment to Sustainable Development were increasingly being adopted by companies. In 2001 three companies published their Business Principles (C2, C3, and C5.) and three claimed to seek transparency and openness (C3, C5 and C6). The increase was also due to a higher commitment to sustainability between 1999 and 2000 because of C2 and C3. This period corresponds to the increase in ethical investment in the Netherlands (see Chapter 6) and to the launch of the sustainable indices.

C2, C3, C5 and C6 displayed some changes around 2000. Then, all of them started to adopt some of the elements analysed. C2 and C3 already started in 1999 while C6 and C5 started in 2001. Companies from the Media sector adopted the different elements later. In the near future, meaning 2003/2004, C1, C2, C3 and C4 will probably have most of the aspects in place, while C5 and C6 will not.

On the basis of these results, C1 and C4 may be described as the 'leaders', C2 and C3 as 'followers' and C5 and C6 as 'laggards'.



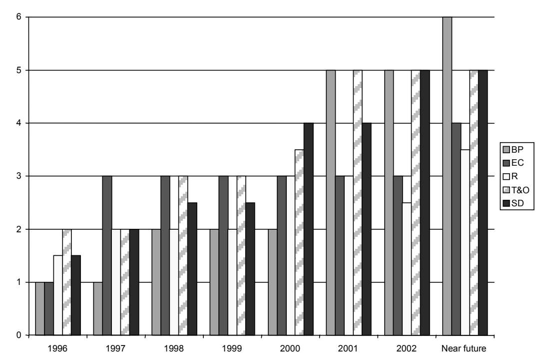


Figure 27- Cumulated results: a) per company, b) per element

7.5 Sustainability indices

As mentioned in section 7.3.1, sustainable indices played a strong role in drawing managers' attention to ethical investment. This section first presents the way corporation managers talk about sustainability indices, then analyses the way corporations use the indices.

7.5.1 Sustainable investment: a symbol of good sustainability performance

All the managers interviewed were aware of the sustainable indices, the FTSE4Good and the Dow Jones Sustainability indices (DJSI) (see Box 5). They all knew what these are and when they were launched. They consider them as an important phenomenon and they also said that "*knowledgeable people in the business regard those indices as important*" (P11/C1).

There are some differences among the six companies. Managers from C1, C2, and C4 (C1 and C4 are listed but not C2) mentioned the indices very often during the interviews. Companies' documents, reports, brochures or websites also disclose a lot of information about the indices. The other three, C3, C5 and C6, acknowledge the phenomenon but with less enthusiasm and vigour. However there is a general belief among companies that: 1) listed companies are the best regarding social and environmental performance as well as financial performance; 2) indices are a kind of social test regarding companies' sustainability performance; 3) indices are used as indicators by stakeholders. Therefore sustainability indices have grown as an important phenomenon within the business community.

Sustainability indices represent some kind of social norm and what a company should do or strive for. P11/C1 described it as "*what is generally acceptable and expected from a company*" (P11/C1). Therefore companies ought to be 'in': "*If you are not [in], if you are not up to standard to be in there, it could become a goal for you to work on, to become member of it. That has positive values in itself, working towards stepping over boundaries and entering the FTSE4GOOD*" (P12/C1).

Managers consider the ratings provided by sustainable indices as good indicators of the company's sustainability performance. The six companies investigated – even those that were not listed – agreed with the outcomes of the ratings. They saw the outcomes of the ratings as a reflection of what they do. It is what people/stakeholders see: "*it is a reflection of recognition that people feel that you are doing good on CSR*" (P18/C4). Sustainable indices are good social indicators for managers. If they are excluded from the indices, it does not necessarily mean that they do something 'wrong', but rather that the public/stakeholders get the 'wrong' picture. Interviewees believe that they can improve their rating by publishing Business Principles, and thereby hope or expect to be listed on the sustainability indices.

Being listed on the indices is perceived as a positive development by managers. It is a reward and an "*honour*" (P14/C3) --"*we are proud to be in the Dow Jones Sustainability Index being the leading company in the sector*" (P18/C4). It represents an achievement of sustainability performance. And it also contributes to the company's reputation — it is *"free publicity stating that the companies do well in this area*"(P18/C4). Being listed not only means that the company is a 'sustainable' company but also that it is among the best companies of its sector: *"companies that are listed on the Dow Jones Sustainable Index… these are the best companies there are … these companies are better companies in general*." (P13b/C2).

"external *driving force, society's expectation and business climate*" (C1, 2001)
"Global sustainable development awards" (C1, 2002)
"*important phenomenon... an expression of the contemporary view*" (P12/C1)
"*important part of reputation (P12/C1)*
"*expression of being visible, recognised as a relevant force, as a relevant party in society" (P13b/C2)*
"*question of reputation… a kind of PR [public relation]*"…"*it is good to be there*"…"*it has some advantages"* (P13b/C2)
"… it is a kind of honour…it is good" (P14/C3).
"*world's most environmentally responsible business*" (C4, 2000a)
"*recogni[tion of] our achievements*" (C4, 2000b).
"*public recogni[tion] by others*" (C4, 2003)
"a reflection of recognition that people feel that you are doing good on CSR"(P18/C4).
"*a reflection of what you are doing in this area… something which is good with an external check on the thing you believe in.*"(P18/C4)

Box 5 – What managers say about sustainability indices

7.5.2 Corporations' approach to sustainability indices

Companies have different approaches to sustainable indices. Companies that are listed on the indices disclose it in their report and website. However there are differences on the way they report (see Table 44). C4 immediately reported about being listed in its 1999 Sustainability report. Since then the company has been reporting on the indices more and more extensively every year. In 2002, the Sustainability reports mentioned them four times, including once in the Chairman's statement. Information about indices has also been placed under the "News & Awards" section on the website, and several speeches of the Chairman refer to them. C1, however, did not report immediately about being listed. Although the company was already listed in 1999, this only got mentioned in the 2001 Sustainability Report in which there are several references to the sustainability indices. In 2002, index listing was presented as a reward. C5 is somewhat different. It mentioned its inclusion in the Dow Jones Sustainability Index in 2002 but in a very reserved way and without pomposity. The manager interviewed did not know that the company was listed. C1 and C4 place much emphasis on the fact that they are listed. They present this as a proof that they are doing well, especially since 2001. On the contrary C5 remains rather discrete about the subject.

The non-listed companies also react differently. C3 and C6 do not show much interest in being listed. However C2 considers the indices very seriously and wants to be listed as soon as possible. In 2001 the company produced a document in which it says: "*the advantage of being listed on something like the Dow Jones Sustainable Group Index would be to underline that commitment [to sustainable development]. But it would go further than that. The chemical industry doesn't have the best reputation, based on perception. It we can change that perception and get people outside the industry to believe in what we're trying to do, then that would be a very important step forward. A listing could also be important when we try to recruit people in the future. People like to work for a responsible company, one that is thinking about environment.* (C2, 2001) The two managers interviewed made clear that the company is working on getting selected into the indices: "*We are not a front runner but we are working on it with a step by step approach"* (P13a/C2); "*We think that if we move in that direction, within one or two years we will automatically qualify*" (P13b/C2). C2 is not listed but obviously wants to be—"*of course we are aiming to be on that list*" (P13b/C2)-- although at one moment one of the interviewees said that it is not a goal to be listed—" *But it is not a goal as such it is the result of the way you work." (*P13b/C2).

Table 45 classifies companies according to whether or not they are effectively listed on at least one sustainable index and whether or not they consider it important to be listed. The table clearly shows that C1, C2, and C4 consider listing more important than C3, C5 and C6. C3 is the only exception. The indices have created a certain amount of competition between companies. This is especially noticeable regarding C2.

In terms of responses, C1 made clear that the ethical investment community would not influence its activities and behaviour. The company has a "*strong identity*" and shows confidence about what it has to do. They do answer questions for the ethical community but would not carry out extra research to comply with the requirements. C2 takes care to answer the "*important*" questionnaires, mainly meaning questionnaires sent for the sustainability indices and some major banks. Managers from C2 also made clear that they want "*to do it their way*". They insisted on the fact that the company is not yet ready to answer but very soon they will and will for sure be selected on the sustainable indices. C3 and C4 were the most easy-going companies; they answer as much as possible because it is in their interest to do it and because they consider it important. C5 answers all questions but is not convinced of the added value for its companies. And C6 claims not to be ready yet for answering any questions.

C1	
2001	*"C1 was included in the UK's FTSE4Good index launched in 2001 and was rated first in the energy sector of the global Dow Jones Sustainability Index. These indices include companies that meet criteria on social and environmental performance, There has been rapid growth in socially responsible investments funds in recent years; in 2001 they were worth some $3 trillion in the USA alone. This shows the growing importance that investors are giving to considering not just how much profit is made but how it is generated*" (C1, 2001).
2002	"*Global sustainable development awards: Shell was ranked top of the energy sector in the Dow Jones Sustainability Index. The index tracks the financial performance of companies that have made sustainability a key driver of business strategy*" (C1, 2002).
C4	
1999	"*C4's commitment to sustainability was recognised in 1999 with our inclusion in the Dow Jones Sustainability Group Index. This index uses a systematic methodology to identify companies that lead the way in taking a strategic approach towards sustainable business development*" (C4, 1999).
2000	"*In 2000 we were recognised as one of the world's most environmentally responsible business – coming first in our industry sector of the Dow Jones Sustainability Index. Our achievement in extending our environmental perspective to the whole life cycle of our products was noted by the judges*." (C4, 2000a)
2001	"*For the third consecutive year we topped our industry sector in the Dow Jones Sustainability World Indexes." …"SRI and performance indexes: C4 is included in two stock indexes, the FTSE4Good and the Dow Jones Sustainability Indexes (where we continue to rank best in sector). In the 6th Business in the Environment Index – an annual survey of corporate environmental engagement- we were ranked second overall and first in our sector*." (C4, 2001)
2002	"*For the fourth year running we have led our sector in the Dow Jones Sustainability Indexes*" (C4, 2002a); "*C4 is included in two leading stock market indexes, the FTSE4Good and the Dow Jones Sustainability Indexes (where we continue to rank best in sector)"*".(C4, 2002b).
C5	
2002	"*C5 has been selected as an index component of the Dow Jones Sustainability World Indexes and Dow Jones STOXX Sustainability Indexes in 2002*."(C5, 2002)

Table 44 –Citations of companies reporting on sustainability indices

	Consider it important to be listed	Do not consider it important to be listed
Listed	C1, C4	C5
Not listed	C2	C3, C6

Table 45 – Is it important to be listed on the sustainability indices?

7.5.3 Sustainability indices: a CSR certification

Sustainable indices are considered as a kind of signal that makes rational assumptions about the intentions and future behaviour of companies. Companies see index listing, and present it as, a reward.

All six companies admitted being confused about what ethical investment is. But they all know what they have to do if they want to be listed; just as with ISO certification, they need to fulfil a series of requirements. It seems rather clear to corporations what they have to do to get listed on the indices.

Sustainability indices are used as a kind of 'sustainability certification'. Inclusion in sustainability indices provides validity, a status hierarchy, and builds up the reputation of corporations. Sustainable indices serve as 'certification contests'. A contest denotes an index competition in which performances are ranked and argues subsequently that early performances are more significant (Rao, 1994). Such certification contests provide a social test. Rating organisations benchmark corporations and assess their conformity to some socially recognised norms. Results of the screenings are brought to the public sphere through market indices and funds. Rao (1994) asserts that certification contests provide extrinsic criteria of fitness and reduce the ambiguity caused by lack of standards. In other words in the best case, that is when listed, sustainability indices contribute to the corporations' legitimacy, and in the worst case, that is when not listed, do not affect the company.

7.6 Corporations' responses to ethical investment

This section analyses companies' responses to ethical investment. The analysis follows Oliver's framework described in Chapter 3 and is based on the previous data – that is on what managers said during interviews and what the companies have published.

Corporations' responses to ethical investment have changed over time and differ per company. The important events that changed corporations' responses are the creation of the sustainable indices in 1999 and 2001. Around this period, companies started to consider ethical investment differently.

Response to ethical investment is closely related to a corporation's approach to sustainable development and corporate social responsibility. These are perceived by the six companies as important aspects of corporate legitimacy. Interviewees pointed out that corporations are expected to engage in and commit to sustainability. They all noted that they are under increasing pressure from their stakeholders to show good social and environmental performances and be transparent. A proper, desirable and appropriate company should demonstrate commitment to protect the environment, enhance social welfare, and dialogue with its stakeholders. There is a common feeling that companies that are not able to display such characteristics may in the near future be regarded as inappropriate. Therefore corporations increasingly provide signals of their commitment, such as business principles, ethical committees, reporting and the establishment of corporate affairs units. Those signals contribute to the building of the corporation's reputation. Ethical investment gained importance when in the late 1990s it clearly adopted the CSR governance model.

7.6.1 Before 1999/2000

Until 1999/2000 the six companies did not consider seriously the ethical investment community. It was a marginal activity both in terms of size and number of ethically screened portfolios and in terms of actors involved. Ethical investment funds were not yet diffused among mainstream financial institutions and mainly concerned small socially-minded banks.

The criteria of ethical investment were very diverse and numerous. There were no standards. And criteria were also rather stringent and required from companies some significant changes. This created some uncertainty for companies but also conflicting pressures between the funds. Also criteria were not always compatible with companies' goals and objectives. They were mainly based on the exclusionary methodology and referred to as 'ethics'. They were neither aligned with the more general CSR models or represented a shared set of norms and values.

Another element of uncertainty concerned the concept of sustainable development. Ethical investment referred to this concept. However not all of the six companies were familiar with it. If C1 and C4 had already had a clear view on sustainable development for some years and had already translated the concept internally, the others – C2, C3, C5 and C6 – did not. Indeed C1 and C4 were far ahead of the ethical investment community.

The period before 1999/2000 presents a number of characteristics that, according to Oliver's framework, would lead to defiance or manipulation strategies (see Annex 12). Corporations did not feel any significant pressures from the ethical investment community. They did not adopt any active strategy such as the manipulation strategies described by Oliver. They did not consider doing this, which would better fit under the dismissing type of strategy. This does not mean that companies would not answer sustainability analysts asking them questions but they did not show specific interest in doing so.

7.6.2 After 2000

The period after 2000 is characterised by a new institutional context. The previous Chapters showed that the norms and values of the ethical investment community shifted from ethics to sustainable development and from punishment to reward. The Triodos case showed that over time, rating organisations tend to adopt standard CSR models, reducing criteria multiplicity. In the Netherlands, but also internationally, ethical investment is becoming a mainstream financial product offered by major banks and increasingly getting attention from pension funds. But one of the major events has been the creation of the sustainability indices, the Dow Jones Sustainability and the FTSE4Good. As described in section 7.5, corporations show a particular interest in this new development.

Around 2000 the institutional context changed. The diffusion and institutionalisation of the activity provided the ethical investment community with tools and power to affect companies' legitimacy. Ethical investment is not the activity of a small marginal group anymore but is supported by a large section of the financial community. Moreover criteria have developed in such a way that they fit into a larger societal demand related to CSR. The assessment of sustainability performance produced by rating organisations has become not only relevant for the ethical investment community but also for a larger set of stakeholders. Managers also recognise that in the long run it affects the economic fitness of corporations by affecting share prices and thereby creates a certain dependence on the ethical investment community.

This new institutional context creates new institutional pressures. However if before 1999/2000 the six companies responded in a similar way, after 2000 there are some differences (see Annex 12).

C1 and C4

C1 and C4 show the most active responses. They have to a certain extend co-opted and influenced the setting of the standards for ethical investment. Their response fits into their broader approach to CSR and sustainable development in which ethical investment is integrated as one element. Both corporations have a proactive (in reference to (Ackoff, 1974)) approach to CSR and are recognised as leading companies by their peers but also by the ethical investment community. Their leading position and their highly connected CSR network have played an influential role in the formation of the ethical investment field and especially in the setting of ethical standards. Ethical investment standards have to a large extent become consistent with C1 and C4's goals and are not constraining because to a certain extent they are aligned with their own standards. For both companies the legitimacy factor is rather moderate because of their already established leading position. Their inclusion into the sustainability indices confirms their position but does not directly affect their legitimacy; they also do not necessarily need to be recognised as leaders.

C1 and C4's responses to ethical investment are difficult to qualify within Oliver's framework. Although four of the factors fall under the acquiescence strategy, C1 and C4 do not merely follow the taken-for-granted norms or blindly obey the rules. Both companies have opportunistically used sustainability indices as a tool to demonstrate and reinforce their leading positions and acceptability to other actors. They show an active response and an ability to exert power over the contents of the expectations themselves. Their responses go beyond acquiescence. They are opinion leaders and are able to develop their internal practices beyond the institutional expectation but also to turn the expectations into a competitive advantage. C1 and C2 response correspond to the missing strategy pointed out by Cartwright (1998) and Cashore & Vertinsky (2000), that is internalisation.

C2 and C3

C2 and C3 are in a kind of in-between position: they are neither leaders nor laggards. They are the followers. Therefore they are more sensitive to the effect of ethical investment because it can either positively or negatively affect their legitimacy. If ethical investment was not an important element for C1 and C4 because of their already established leading position, it can make a difference for C2 and C3. These corporations compare and are compared to the leaders, creating an important competitive effect. Moreover they are both in a sensitive sector where companies are under significant societal pressures regarding social and environmental matters. Because standards of the ethical investment community are based on those of leading companies, compliance with the norms requires from C2 and C3 some changes (for example to integrate sustainable development into their objectives, or write a sustainability report). This can be constraining and is not always in line with the company's goal. Moreover, for C2 and C3 sustainable development is still an uncertain area and they have not yet developed a strong CSR network compared to C1 and C4. The sanction for not complying with the norms is high, especially for C2: exclusion from the sustainable index increases the gap between them and the leading companies. It therefore reinforces their position of followers.

C2 and C3's response meets a number of the characteristics of the avoidance and acquiescence strategies defined by Oliver (1991). To a certain extend the companies want to conceal the gap with the successful leading companies but they also imitate them and comply with the CSR standards as much as possible.

C5 and C6

C5 and C6 are less affected by ethical investment and pressures related to social and environmental matters in general. It is only recently that these companies have started to be affected by the pressures.

The analysis carried in section 7.4 reveals that in 2000-2001 these companies adopted a new approach towards sustainable development and CSR. They started considering some of the five elements studied. Complying with ethical investment standards is still a high constraint for those companies who do not have any sustainability reporting system or business principles in place. Moreover sustainable development is not always consistent with their objectives because it has not yet been integrated. If C5 has carried out some changes and tried to align its objectives on the CSR model, C6 has not done this yet. However, according to the manager interviewed, the company is soon going to publish its Business Principles.

The institutional context does not create any strong pressures on C5 and C6. Being listed or not listed on the sustainable indices is not a high sanction or reward. It is not used as a distinctive sign in this sector. C5 and C6's response balances between avoiding and ignoring the pressures. They both tend to reduce the extent to which they are externally inspected and evaluated. They both "*hope*" to answer the ethical investment community questions by establishing business principles. Although this may also be the case for other companies, C5 and C6 tend to avoid institutional pressures through concealment or buffering tactics involving disguising nonconformity behind a façade of acquiescence.

7.6.3 Diversity of responses

Corporations' responses vary over time and per company. Table 46 provides an overview of the responses identified.

Until the late 1990s, the six companies investigated ignored or were unaware of the pressures exerted by the ethical investment community. It is however important to note that at that time ethical investment was in a transition phase and was seeking some sort of standards to screen the sustainability performance of companies, while C1 and C4 were already well advanced on the subject and even ahead of the ethical investment community. They had already developed schemes and standards for themselves.

Around 2000 the institutional context changed and corporations adopted new types of responses. Several points come out of the analysis of the data:

- Three main groups of response have been identified: C1 & C4, C2 & C3, and C5 & C6. These three groups correspond to the classification made earlier in this chapter: leaders (C1 & C4), followers (C2 & C3) and laggards (C5 & C6). The leaders' group has the most active strategy. This suggests that the responses of companies to ethical investment may be related to their general approach towards CSR and sustainable development.
- Corporations do not respond to the same pressures or ethical investment does not exert similar pressures on the six companies. C1 and C4 singled out some elements of ethical investment and brought them into their own strategies. They transformed the sustainable indices into a kind of CSR certification. Rather than a pressure they saw an opportunity to reinforce their leading position. C3 but especially C2 responded to a competition factor: because their competitors, C1 and C4, were listed on the sustainability indices, they considered that they ought to be listed in order to be among the best companies. As for C5 and C6, pressures are not very strong yet. They respond to a normative pressure related to CSR coming from society at large but to which the ethical investment community is adding more force.
- Companies do not seek the same degree of legitimacy regarding CSR and sustainable development matters. C5 and C6 do not seek a CSR certification while the other four do. Although the data do not confirm this (but only suggest it), it seems that there is a sector effect. In several instances the analysis of the data suggests a distinction between on the one hand, the Oil & Chemical and Food sectors and on the other, the Media sector (for example regarding the way managers perceive ethical investment or the reporting practices of companies).
- Corporation responses are not always clear-cut. It may be argued, for example, that to a certain extent all six companies avoid the pressures by adopting the five elements studied. Moreover corporations' responses do not exactly fit Oliver's framework. They present characteristics of several strategies such as buffer and dismiss or imitate and acquiesce.

	Before 1999/2000	After 2000		
	All companies	C1 & C4	C2 & C3	C5 & C6
Strategic response	Dismiss	Co-opt/Influence	Imitate/Comply & Conceal/Buffer	Conceal/Buffer & Dismiss
Factors				
Cause				
Legitimacy	Low	Moderate	High	Low
Efficiency	None	Low	Low	Low
Constituents				
Multiplicity	High	Low	Low	Low
Dependence	None	Low	Low	Low
Content				
Consistency	Low	High	Moderate	Moderate
Constraint	High	Low	High	High
Control				
Coercion	None	Moderate	High	Low
Diffusion	Low	Moderate	Moderate	Moderate
Context				
Uncertainty	High	Low	High	High
Interconnectness	Low	High	Moderate	Low

Table 46 – Corporations strategic responses: an overview

7.7 Managing the pressures

This chapter investigated corporations' responses to ethical investment. *Responses evolved over time*. Until the end of the 1990s/beginning of the 2000s, corporations were able to ignore any pressures exerted by the ethical investment community. The institutional factors created conditions that privileged responses of the defiance type: the pressures affected neither the social nor the economic fitness of the companies; actors in the field where marginal financial institutions; the criteria of ethical investment were not adapted to businesses, maybe "too naive" as one of the sustainability analysts of Triodos Research pointed out; and there was no specific means to exert the pressures. Nevertheless corporations were already facing pressures to face their social and environmental responsibilities (see Chapter 5, Section 5.4.2). But in the 1990s ethical investment did not refer directly to the concepts of sustainable development or CSR. Corporations associated the activity with marginal and extreme groups.

A key event marks a change in corporations' responses to ethical investment: the introduction of the sustainable indices, the Dow Jones Sustainability Indices in 1999 and the FTSE4Good in 2001. This new element provided the ethical investment community with the necessary means to exert pressures on corporations, reinforcing the institutional factor of control. Corporations reconsidered ethical investment and revised their strategies. The sustainability indices may be the key event that triggered companies' attention, however in the development of ethical investment it did not come alone. The indices are one of the outputs of the institutionalisation process of the field. The end of the 1990s also saw a number of changes in the field such as increasing interest from mainstream financial institutions, professionalisation, and to a certain extent standardisation and structuration creating new institutional pressures (see Chapters 5 and 6). After this key event, corporations adopted a diversity of strategies.

In the late 1990s/beginning 2000s, corporations integrated ethical investment as one element of a broader field, CSR. Ethical investment then became compatible with, and relevant to, corporations' goals and objectives. Corporations, and especially certain sectors such as Oil & Chemicals and Food, are increasingly expected, but also required, to provide evidence of their social and environmental commitment. Therefore their perception of ethical investment has changed; it has become a way to enhance a corporation's social fitness and in the future to prevent economic risks. Being positively screened by ethical investors fulfils a strategic utility. That is particularly true for C1 and C4 (one company is from the Oil & Chemicals sector, the other from the Food sector, and both are listed on the sustainability indices). These two companies did not wait for ethical investment to exert significant pressures, but they behaved pro-actively and strategically used it. They turned the sustainability indices into a CSR certification, thereby enhancing their social legitimacy and protecting an economic gain in the long term—they expect regular investment funds to adopt social and environmental criteria very soon. C1 and C4's response is difficult to fit into Oliver's framework. It suggests the missing strategy identified by Cartwright (1998) and Cashore & Vertinsky (2000); they call it "internalisation". This strategy stresses active acceptance: C1 and C4 do not resist the pressures but use and influence them in a strategic way.

C2 and C3 responded differently. These companies are from the same sectors of activity as respectively C1 and C4, but contrary to C1 and C4 they are not sustainability leaders in their sectors; they are followers. They do operate in rather similar environmental contexts, and therefore are increasingly required to show a good sustainability performance. The introduction of the sustainability indices and the use of the indices as CSR certification by the listed companies created an important competitive dimension for C2 and C3. It became a sign that the company is 'one of the best'. These two companies adopted a mixed strategy combining the acquiescence and avoidance types. There is a certain aspect of mimetism: listed companies provide the model of the successful companies. C2 and C3 therefore imitate the listed companies, for example by establishing business principles or publishing CSR reports. This same response can also be considered as a form of disguising nonconformity. C2 and C3 provide the required answers to the ethical community in order to be positively screened, but these answers do not mean that they actually comply with expectations. They can be regarded as a symbolic acceptance.

Companies from the Media sector presented a different type of response. Until recently the Media sector has been less subjected to pressures related to social and environmental matters. Therefore C5 and C6 may not seek the same degree of CSR legitimacy than the other four companies. In 2002, at the time of the investigation, CSR was not a big issue for them. They did not perceive any strategic utility in being listed on the sustainability indices: C5 did not claim its inclusion on the Dow Jones Sustainability Indices. These companies showed mixed responses that combine the avoidance and defiance types of strategy. They did not provide a response specific to pressures from the ethical investment field but rather to a more general stream of pressures related to CSR.

Does ethical investment affect a corporation's legitimacy, as was suggested in the introductory chapter? Until 2000 it did not have any impact on a corporation's legitimacy. However since 2000 it does contribute to the process of legitimation. Ethical investment has become linked to CSR and sustainable development, which corporations increasingly need to legitimate their actions and existence. Being positively screened and ultimately listed on the sustainable indices provides companies with an external accreditation that they not only are conform to social and environmental norms but also that they are among the most sustainable companies. Two important elements have enabled ethical investment to affect corporate legitimacy. First the association of the activity to the field of CSR. And second the strategic choice of certain companies, such as C1 and C4, to display it as a CSR certification. Certain companies – like C2 in the sample studied – want to be listed and try to conform as mush as possible to the criteria such as producing business principles or a CSR report. Several sustainability analysts noticed the growing interest of companies in social and environmental screening after the launch of the sustainability indices. Ethical investment affects corporate legitimacy positively because some companies have deliberately and strategically turned it into an accreditation body but there is no sign that it affects corporate legitimacy negatively.

Oliver's framework (1991) provides a valuable tool for analysing organisations' responses to institutional pressures. It incorporates the assumption that organisational resistance to institutional pressures is a strategic choice. It outlines the likelihood of organisational resistance to external pressures for conformity in relation to the degree of pressure exerted by the institutional expectations. The case of ethical investment corroborates Oliver's perspective. The analysis of the six corporations shows a diversity of strategies: the six companies were not affected similarly by the pressures and they did not respond in the same way to the same pressures. The analysis suggests a distinction between the sensitive sectors (Oil & Chemicals and Food) and the non-sensitive sector

(Media), but also between leaders, followers and laggards. It demonstrates that corporations do not simply comply with institutional pressures but respond strategically according to their individual interest and the specific context they operate in.

However, Oliver's framework, as was pointed out in Chapter 3, is linear and promotes linear analysis. It does not consider interactions between organisations and the field and does not make it possible to take into consideration the role and impact of organisations' responses in the institutional field. Nevertheless being part of the field of ethical investment, corporations have transmitted their interests back to the field. This specific point will be further analysed in the concluding chapter which will adopt a more holistic approach.

Based on the empirical data analysed in Chapters 5, 6 and 7, the next chapter will develop the conclusion of this dissertation.

Chapter 8 – Conclusion

8.1 Introduction

The preceding chapters outlined the development of the ethical investment field in the Netherlands from the beginning of the 1990s until 2002 and analysed corporations' responses to the pressures exerted by this emerging phenomenon. Chapter 2 documented how the activity started within the Dutch bank Triodos and how it evolved over time. It also described the various aspects of the activity: fund management, company screening and selection. Chapter 5 highlighted firstly the international development of the ethical investment field and secondly the shift from an activist activity to a commercial project dominated by mainstream financial institutions. Chapter 6 examined the development of ethical investment in the Netherlands. It detailed the diffusion and institutionalisation of the activity involving professionalisation, standardisation, structuration, increased interaction between actors in the field, and increased flow of information. However institutionalisation has not created a common definition of what ethical investment is. On the contrary data pointed at some disagreement within the field as well as conflicting logics. Chapter 7 investigated corporations' responses to ethical investment. It presented how in 1999-2000 corporations changed strategies towards ethical investment, highlighting a diversity of strategies. Each of these chapters focused on different levels of analysis: Chapters 2 and 7 on the micro, Chapter 5 on the macro and Chapter 6 on the meso level.

Chapter 8 builds on the empirical data presented in these four chapters to further analyse the two research questions of this dissertation. It also presents some theoretical considerations and finally proposes closing commentaries regarding the potential of ethical investment to contribute to sustainable development.

8.2 On the research questions

Two research questions were addressed in the dissertation: (1) What are the nature and characteristics of the institutionalisation process of the field of ethical investment? and (2) How do corporations respond to the pressures exerted by ethical investment? Both research questions have been approached from a theoretical and empirical perspective, focusing on the field of ethical investment in the Netherlands. Empirical data were collected and analysed in the Dutch context. Findings are therefore limited to a specific geographic scope. The data used do not make it possible to generalise the findings to the international level. Because of the international character of ethical investment, as was shown in Chapter 5, it would be interesting to investigate the development of the activity in other countries and conduct comparative studies. It would be a valuable contribution to the literature on ethical investment and it would allow analysing the institutionalisation process at the international level. This section draws conclusions regarding the two research questions.

8.2.1 Institutionalisation of ethical investment

The Triodos case, presented in Chapter 2, pointed at several signs that were announcing changes in the field of ethical investment. Chapters 5 and 6 analysed those changes in terms of institutionalisation. They showed that ethical investment has become "a recognised area of institutional life". There is a public discourse about ethical investment and there are organisations and occupations that are concerned with activities related to this concept. Empirical data highlight that the field of ethical investment fits many of the indicators of institutionalisation as identified by DiMaggio and Powell (1983) and Scott (1994): an increase in interaction among organisations within the field; the development of inter-organisational structures of control and relational patterns; an increase in the flow of information; and an increase in isomorphism regarding the activity of ethical investment. However other indicators are not present: the development of mutual awareness by members of the field that they share a common meaning; an increased clarity of field boundary; and an increased agreement about the institutional logic that guides the activity.

Ethical investment is a maturing field still in a process of institutionalisation. At the beginning of the 1990s, it started to develop in the Netherlands in an international and institutional context which was changing. Ethical investment was shifting from an activist-related activity to a commercial project. In the Dutch case, financial institutions played an important role in initiating the activity and rating organisations in professionalising it. The data shows that ethical investment has been captured by mainstream financial institutions. In this new activity, they recognised some strategic interests: it offered them a means to reduce pressures to become sustainable organisations while creating new market opportunities. The capture of the field by mainstream financial institutions has initiated a number of changes within the field such as the diffusion of funds among mainstream financial institutions, or professionalisation. It has produced a new institutional context which has created new types of pressures on corporations. In relation to these changes, corporations have adopted new responses to the pressures exerted by the ethical investment community. Since 2000 some of them have applied a more active strategy and managed to appropriate some aspects of the field, namely the sustainability indices. They have used this specific element strategically in order to serve their own interests. They have turned the indices into a CSR certification to enhance their legitimacy.

Both the capture by mainstream financial institutions and the appropriation of the sustainability indices by corporations had a significant impact on the field especially in making ethical investment a viable commercial project and transforming it into an element of the broader field of CSR. The paragraphs below develop four specific aspects of the institutionalisation of ethical investment. Firstly the Dutch field did not start in a complete vacuum but developed in a specific historical and international context. Secondly the field of ethical investment is a maturing field still in a process of institutionalisation. Thirdly and fourthly, it is argued that ethical investment has become a viable commercial project and that the field has been taken over by another field, namely CSR.

Ethical investment: an idea that has evolved in time and space

The field of ethical investment in the Netherlands did not start in a complete vacuum. Chapter 5 showed that its development was embedded in a broader context both in time and space.

The idea of ethical investment started in the US several decades ago. In its first form, ethical investment was mainly connected to religious groups who did not want to support specific activities. They applied negative criteria in order to avoid what they called the 'sin stocks'. In the 1970s, sill in the US, a new form of ethical investment started. It became a more political tool to protest against companies' misbehaviour. Citizen groups took up the idea of ethical investment because it can provide shareholders with tools to exercise power towards corporations (this is described as the exit and voice option in Chapter 5 in reference to Hirschman (1970)).

The idea came to Europe in the 1980s, which also marks the very beginning of a new age of ethical investment; when it became a commercial product. The first ethical fund in the UK (the Friends Provident Stewardship) was launched in 1984 as a range of three funds: a unit trust, a life assurance fund and a pension fund. In the Netherlands the first fund was launched in 1991 by ABF. These two funds, as well as the next two funds launched in the Netherlands by ASN bank and Triodos bank, were motivated by strong beliefs and values and connected to specific groups such as environmentalists or churches, but did not aim at protesting. They were financial products and ought to be profitable.

The development of ethical investment in the Netherlands started in this transition period when ethical investment was halfway between an activist tool and a commercial project. In 1990, when ethical investment started in the Netherlands, there was much confusion about what ethical investment was and especially how to do it. Very soon a rating organisation was set up, initiated by a financial institution. It played a key role in ridding ethical investment of its activist image and transforming it into a professional activity.

Ethical investment: a field undergoing a process of institutionalisation

Chapter 3 presented a model of institutionalisation developed by Tolbert and Zucker (1996). The model includes three phases: habitualisation or pre-institutionalisation, objectivation or semi-institutionalisation, and sedimentation or full institutionalisation.

Since the beginning of the 1990s, the ethical investment field in the Netherlands has been maturing. Before that there was an embryonic form of ethical investment represented by the very few funds applying some sort of exclusionary criteria. However there was no discussion about it or system to carry it out. It was done on a purely instinctive basis and without any organised approach. It was in 1991 with the launch of the first ethical investment fund that the field started to take shape. A group of individuals from different organisations sat together and started to talk about ethical investment, trying to define what it is and translate it into action.

The field developed very quickly. Within a few years a number of developments took place regarding structuration, professionalisation, and normalisation. By the end of 2002, some characteristics showed the field to have reached a semi-institutionalisation stage. Marginal financial institutions have championed the activity and showed that it is a successful one. Mainstream financial institutions, banks but also pension funds, are thinking about or even starting to adopt it. There is a certain degree of consensus about the activity in which professionalisation has played an important role. Criteria and methodology have been standardised, enabling a normative rather than imitative diffusion of ethical investment.

However other aspects of the field indicate that its institutionalisation process is still in the pre-institutionalisation phase. The institutional field shows many areas of contention and elements of the field that are in continued flux and development. There is no shared definition of common meaning about the activity. Data showed that there is a division within the field between the ‘old’ funds and the ‘new’ funds. Although there is a certain degree of standardisation, norms are still in the process of being defined. There is a certain structuration of the field but it is still evolving. For example in 2002 a new organisation, SODP, was set up to respond to the specific needs of pension funds.

The analysis of the field of ethical investment shows that the different characteristics of institutionalisation do not develop at the same time and at an equal speed. This makes it difficult to identify exactly at what stage the field of ethical investment is.

A viable commercial project

Chapter 5 pointed at the shift in the nature of ethical investment from an activist-related activity to a commercial project. It is in this transition period that ethical investment started in the Netherlands, creating an unclear and ambiguous situation. However today it has become a viable commercial project. Three factors have played a determining role in the development and orientation of ethical investment.

The first factor is professionalisation. As was shown in Chapter 6, a professional body, rating organisations, emerged from the field of ethical investment. A new function of 'sustainable analyst' has been created for the activity of ethical investing. Rating organisations have built an expertise – sustainability analysts – and structures – rating organisations – to provide services to ethical fund managers. It has had an important effect to change the activist, amateurish, and subjective image of ethical investment into a more visible, serious and professional activity. Rating organisations have worked on standardising and making the criteria more objective. They have become the 'specialists' providing a certain type of knowledge but also a representative body for ethical investment. Financial institutions that want to set up an ethical investment fund know whom they have to address and corporations have learnt to know rating organisations, what they want and what they do.

The second factor is the adoption of ethical investment by mainstream financial institutions. At the very beginning (early 1990s), a lot of questions were asked about the financial performance of ethical portfolios. The first mainstream financial institutions that launched an ethical investment fund played an important role in turning the activity into a financially viable project. This contributed to a mechanism of mimetism between financial institutions: banks that do not have an ethical investment fund copying those that have one and are successful. Academic studies reinforced this mechanism. It was pointed out in the introduction of the dissertation that most of the research on ethical investment focused on the relationship between financial and social/environmental. Most of them show a positive or at least neutral relationship. It provided mainstream financial institutions with a strong argument to engage in this activity. A number of them quote such research in their brochures or in their discourse to present the fund.

Finally, a third factor is the use of the sustainability indices as a CSR certification by corporations. Chapter 7 highlighted the strategic use of sustainability indices, Dow Jones Sustainability and FTSE4Good, by some of the corporations studied. By turning indices into a CSR certification, they present them as a symbol representative of the sustainability performance of a company. Corporations thereby recognised it as a valid activity and provided the ethical investment community with a power of legitimation. This strategic use created competitive pressures on companies: 'sustainable' companies are expected to be listed on sustainability indices; if they are not, it implicitly means that they are not among the best.

Rating organisations, mainstream financial institutions and corporations have to a certain extent validated the activity of ethical investment and contributed to making it a viable commercial project.

The field of ethical investment taken over by the field of CSR

The field of ethical investment used to be a distinct field, however it has been taken over by another field, namely CSR. Two main groups of actors have played a crucial role in the take-over, namely the mainstream financial institutions and corporations.

Mainstream financial institutions engaged in ethical investment for several reasons. One of them was the increasing pressure from governmental, inter-governmental and non-governmental organisations to show their commitment to sustainable development. Their decision to launch an ethical investment fund was a strategic response aimed at reducing the pressures. They therefore wanted ethical investment to be clearly linked with the concept of sustainable development.

Corporations also played a significant role in the take-over of ethical investment by the CSR field. They strategically used the sustainability indices to enhance their image of socially and environmentally responsible company. Corporations too felt pressures from their stakeholders to improve their social and environmental performances. Although being listed on the sustainability indices does not directly improve their performance, it provides them with an external accreditation of their good performance.

Financial institutions and corporations transmitted their interests back to the field (Hoffman & Ventresca, 2002). The lack of clarity of the field and the lack of a shared meaning offered them strategic opportunities to turn ethical investment into an element of the broader CSR field.

8.2.2 Corporations' responses

Six Dutch stock-quoted companies from three different sectors, Oil & Chemical, Food and Media, were analysed in order to explore their different responses over time to ethical investment. The analysis pointed at three main elements: firstly the ethical investment community is exerting coercive pressures on corporations; secondly ethical investment affects corporate legitimacy to a certain extent; and thirdly, three corporations have adopted a variety of responses. These three points are developed below.

Data collected consisted of externally reported information. The sources of information were various documents publicly available from the companies such as annual reports, websites, or various brochures, and interviews with managers mainly from investor relations or communication departments. These sources mainly provided information on ‘what the company says’ but not on ‘what the company actually does’ or on ‘what is happening internally’. The choice of these sources was motivated by the fact that sustainability analysts for ethical investment base their assessments on the same information. The data offered the advantage of reflecting changes in corporate communication towards the ethical community and thereby making it possible to investigate the responses.

However it also presented a number of disadvantages. It did not provide insights into how companies process pressures exerted by corporations internally. Moreover the view on ethical investment presented by the company was not representative of the whole company but of a specific department which was already being used to deal with ethical investors. Another problem brought by this type of data is the limitation for analysing changes in corporations' behaviour and practices. Complementary information and interviews with a broader set of managers would provide texture and depth to the analysis of the six case studies and greatly enrich the conclusion on the potential of ethical investment to influence corporations.

Coercive pressures

The ethical investment community has become an additional source of coercive pressure related to social and environmental issues for companies. They have been facing increasing requests from their stakeholders to display socially and environmentally responsible practices and behaviour. Ethical investment has rallied and reinforced this general trend by shifting its reference from a marginal view to a more socially accepted view, CSR. It supports the idea that sustainability performance is a good indicator of the company's social and economic fitness.

Corporate legitimacy

As highlighted in Chapter 7, ethical investment influences the social fitness of companies. Through screening, ethical investment directly evaluates companies' suitability as regards social actors' values and expectations for action. The impact of ethical investment is even greater since the launch of the sustainable indices: Dow Jones Sustainability and FTSE4Good. These indices make the assessment publicly available and attract a lot of attention from the press. Complying with ethical investment standards and being listed among the ‘best in class’ provides a way to enhance corporate legitimacy. Ethical investment gives a credible account of the sustainability performance of companies.

The ethical investment community has a very limited impact on companies' economic fitness. As of 2002, the size of the ethically screened funds remains very small compared to regular investment funds. Ethical investment does not present a financial risk for corporations although a number of them do recognise its growing importance. Nonetheless companies find it important to answer questionnaires sent by rating organisations and some of them consider it valuable to be listed on the sustainable indices. An essential motivation for getting listed is because it provides a way to gain social recognition and improve their social fitness. Ethical investment represents a positive contribution to corporate legitimacy. However not all companies seek the same level of legitimacy regarding social and environmental matters. The findings of Chapter 7 suggest that companies from sensitive sectors (Oil & Chemical and Food) are more actively seeking support than companies from the non-sensitive sector (Media).

Diversity of strategic responses

The six corporations studied in this dissertation did not feel any pressures from the ethical investment community until the end of the 1990s-beginning 2000s. Around 2000 corporations' responses changed. A key event stimulated this change: the launch of the sustainability indices. During the same period (end of the 1990s), the ethical investment community made clear references to concepts such as CSR and sustainable development and became a mainstream activity. The institutional pressures were starting to change and became stronger. In response, the leading corporations (in the sample studied) revised their approach to ethical investment and adopted a proactive strategy.

The six corporations studied did not display similar responses. C1 & C4 adopted an active response, which has been categorised under 'internalisation'. C2 & C3 were the companies with the highest need for legitimacy; their response was a combination of acquiescence and avoidance strategy. C5 & C6 were the companies that were the less receptive to the change in the field; their response was a combination of avoidance and defiance strategy.

The findings support Oliver's argument that organisations are not passive and conforming across all institutional conditions but that they adopt strategic and tactical responses to the institutional environment (Oliver, 1991). The analysis of the six corporations highlighted that organisations were not affected by, or sensitive to, the same pressures.

However if the six corporations analysed displayed a diversity of strategic responses, they converged in terms of concrete responses. In the dissertation five specific aspects were looked at: reporting, business principles, ethical advisory committee, transparency and openness with stakeholders and commitment to sustainable development. The analysis suggests some mimetism between corporations, where companies like C1 and C4 were looked at as successful corporations. C1 and C4 were the first corporations to have all five elements in place and they are both listed on the sustainable indices. Over a period of six years, all six companies had business principles, most of them showed commitment to sustainable development and transparency towards their stakeholders, and CSR reporting was becoming increasingly an issue. Companies that were not listed on the sustainable indices expected to be listed as soon as they had arranged these five elements.

The case studies also show that corporations are getting increasingly organised to respond to the ethical investment community. When Triodos Research carried out its first company screenings, in 1997, it was difficult to get information from companies. There are two main reasons for that: firstly companies did not have the information and secondly companies did not know what the rating organisation was about and what they were going to do with the information. The first reason is very important. It reveals another mechanism that happened outside the field of ethical investment but in which the ethical investment community has played an active role: standardisation of sustainability reporting (see (Koziol, 2000)). Increasingly various actors are asking companies to disclose information related to social and environmental matters. The ethical investment community is one of them. In the 1990s and especially in the late 1990s – when the Global Reporting Initiative was launched – there was a tremendous move towards a standard form of reporting. Leading companies, such as C1 and C4, investigated in this dissertation, have been playing an important role in crafting the standards. They have been used as models and were much more advanced than most of the other actors involved in the process. Since the mid-1980s C1 and C4 have been developing 'sustainability' standards and environmental management codes. For example, in 1989 two environmental codes were created involving key trade association and environmental groups: the Responsible Care Program sponsored by the Chemical Manufacturers Association and the Valdez Principles sponsored by CERES, a coalition of environmentalist and activist shareholders (see (Hoffman, 2001; King & Lenox, 2000; Olson et al., 2003)). The involvement of companies is visible through the analysis of the CSR organisations (see Chapter 6), that have been important partners during the development of the standards. C1 and C4 are members of a large number of CSR organisations. In 2003 companies were increasingly disclosing information and getting organised to answer questions. They have hired CSR managers, usually based in the corporate affairs or corporate communication department, who are prepared to face public questions. As several studies have showed, the corporate affairs function has been professionalised (Clark, 2000; Hargreaves & Dauman, 1975; Hutton, 1999; Lagerwey, Hemels, & Heillmann, 1997; Lange, 2000; L'Etang, 1999; Ruler, Vervic, Flodin, & Butschi, 2001). Companies are now ready to be screened and know what types of questions to expect. They have also learned to know more about rating organisations – what they do and how they use the information – by working with them in the process of reporting standardisation but also through screening. Uncertainties have been reduced and enabled partnerships between rating organisations and corporations.

8.3 Theoretical discussion

The analysis of the ethical investment field shows that the formation of a field is not a smooth process. It evolves through a long process of interactions between actors and emerges from, and in, a specific context. This section presents first the theoretical contributions of the dissertation and then discusses some specific aspects pointed out by the investigation of the field of ethical investment.

8.3.1 Theoretical contributions

A major contribution of this dissertation to institutional theories is the expansion of the empirical base of the theory. It does so in three respects. *Firstly*, this research investigated the institutionalisation of a commercial project. Organisational field studies have principally focused on fields comprising government agencies (DiMaggio, 1983; Tolbert & Zucker, 1983), non-profit organisations or professions such as health care (Scott, Ruef, Mendel, & Caronna, 2000), museums (DiMaggio, 1991), and education (Meyer & Rowan, 1977b; Tolbert, 1985). Commercial projects have received little attention from institutional theorists. This dissertation adds to this area of research.

Secondly, the dissertation explored an institutional field which is in formation. Institutional fields have mostly been investigated once they were already formed and shaped. A number of research projects address field dynamics and organisational isomorphism building on DiMaggio and Powell (1983)'s definition and characteristics of organisational fields. But very little research investigates the emergence of organisational fields: how and why does a field come to be what it is? Recent studies have developed aspects of field emergence, often focusing on the development of organisational forms that appear as wider activity, policy, or industry fields get (re)organised, or on the activities of institutional entrepreneurs (see (Olson, Ventresca, & Stevenson, 2003) for a review). This dissertation investigates the formation of an institutional field focusing on its emergence. It therefore contributes to the literature on institutional theory by bringing new insights into how fields emerge.

Thirdly, the 1983 DiMaggio and Powell's paper, "The iron cage revisited", has been a major contribution and highly influential work in the new institutional theory of the last 20 years. They further developed the work of Meyer and Rowan (1997) related to collective rationality. They argued that organisations become similar not because of competition or efficiency requirements but rather as a result of a legitimatisation process, a search for social recognition. DiMaggio and Powell (1983)'s paper has generated a prodigious number of studies (for a review see (Mizruchi & Fein, 1999)). However research tends to focus on field operations and hardly considers the process of structuration, rather concentrating on structural determinants. This dissertation differs by addressing and developing mechanisms.

8.3.2 Field structuration and consolidation

The dissertation described the institutionalisation process of ethical investment in the Netherlands. The analysis was based on a theoretical model built from institutional theory. The empirical case studied suggests some nuances but also new elements related to field structuration and consolidation that need to be further explored. These are developed in the following paragraphs.

Characteristics of institutionalisation

The analysis of the field of ethical investment brings up nuances and new characteristics regarding some of the theoretical elements of a mature institutional field identified by DiMaggio and Powell (1983).

There is a higher level of interaction between organisations in the field, but not equally among organisations. The number of interactions has increased for some of the actors in the field and decreased for others. In Chapter 2 it was pointed out that on the one hand in 2002 Triodos Research had fewer contacts with investors and Triodos Bank had fewer contacts with corporations than they had in 1997. And on the other hand in 2002 Triodos Research had more contacts with other rating organisations than it had in 1997, and both Triodos Research and Triodos Bank had increased contacts with ethical investment organisations such as Eurosif and VBDO. Rating organisations have become a central actor in the field around which most of the interactions concentrate. The increase in interactions between rating organisations and other organisations of the field is much higher than between the other organisations of the field.

The case of ethical investment reveals another nuance related to the characteristics of institutional fields: not only the number but also the quality of contacts changed. Several examples illustrate this point: rating organisations and corporations have developed a partnership-type of relation and financial institutions and rating organisations have developed a supplier-client type of relation, neither of which were present in the early 1990s. The quality aspect is important because it affects not only the number but also the type of interactions (see also section 8.4.)

There is not only an increase in the amount of information circulating 'within' the field of ethical investment among organisations of the field, but also 'about' the field from actors outside the field. There are conferences such as the annual TBLI international conference or the annual 'Dag van het Ethisch Beleggen' Dutch conference, websites entirely devoted to ethical investment such as Duurzaam Beleggen (www. Duurzaam-Beleggen.nl), and organisations such as VBDO which bring together actors of the field and where they exchange information. There is also an increasing number of articles in the press or academic articles in journals about ethical investment. The analysis of the TBLI attendees showed that press interest has increased between 1999 and 2002. Ethical investment hits regularly main newspapers such as the Financial Times (see for example (Warwick-Ching, 2003)). There is another aspect related to the flow of information which is reflected in the transparency guidelines. The objective is to "create more clarity" around ethical investment (Eurosif, 2003). The guidelines require ethical fund managers to disclose information related to the policy and practices of the fund. This marks a first attempt at controlling what is or should be ethical investment. The case of ethical investment shows that the flow of information increased. However some nuances need to be brought regarding why it increased and how the information is used.

Finally the case of ethical investment does not reveal an increasing mutual awareness among participants that they share a common meaning system. However the field reveals other elements. Firstly the institutionalisation of the field has been accompanied by a consensus about the activity: criteria and methodology are becoming increasingly similar across ethical funds. And secondly the field demonstrates a rhetoric isomorphism: actors in the field tend to use the same wording, to develop a common language. This is illustrated, for example, by the 'old' fund managers who are thinking about changing the name of the fund (or already have done so): they want to use 'sustainable' instead of 'ethical'; or by the fund managers that use the same labels for the criteria. However, what each of them actually means is not the same. This comes out clearly when analysing the two groups of financial institutions, the 'old' and the 'new'. They also have different motives for engaging in the field.

It could be interesting to bring the concept of boundary objects used by Star and Griesemer (1989). They define boundary objects are "objects which are both plastic enough to adapt to local needs and the constraints of the several parties employing them, yet robust enough to maintain a common identity" (Star & Griesemer, 1989). As a boundary object, ethical investment is a common point of reference of conversation for actors in the field (people can all agree they are talking about ethical investment), they even use similar wording to a certain extent. However actors do not actually talk about the same thing; they attach different meanings to ethical investment. Ethical investment is plastic enough to adapt to changing needs (boundary objects are working arrangements, adjusted as needed; they are not imposed by one community, nor by appealing to outside standards) and satisfy different concerns simultaneously. Nonetheless Chapter 6 showed that there are some conflicts within the field due to different meanings. This raises a question about the elasticity of ethical investment as a boundary object. It could be studied in the future when the field will be mature.

Field boundaries

Earlier in this chapter it was pointed out that the boundaries of the field of ethical investment are not clearly defined. The take-over of the ethical investment field by the CSR field has created ambiguity about the field boundaries. Ethical investment has become an element of the CSR field because actors share the feeling that they are involved in a similar activity. However the ethical investment activity itself has remained a distinct activity. This raises the question: is the field of ethical investment defined around a common technology/industry or around a common issue?

Institutional theorists usually define fields around common technologies or common industries. Hoffman proposes another perspective, in which he argues that fields are formed around issues that bring together various field constituents with disparate purposes (Hoffman, 1999). The analysis of the ethical investment field challenges both approaches. The field does not simply focus on one issue or one industry but rather on several interests and issues interwoven together. There are different types of actors involved: financial institutions, corporations from very different sectors of activity and rating organisations. Actors who get involved in the field pursue various interests. Ethical investment deals with several issues and/or actors link it to different issues, such as CSR, sustainable development, ethics.

It seems difficult to answer this question given the state of development the field is in. This problem in identifying what defines the field, technology or issue, makes the boundaries of the field difficult to draw and calls for an extension of Hoffman's argument.

Institutionalisation: a portfolio of micro-mechanisms

DiMaggio and Powell (1983) explain the homogeneity of organisational forms and practices through three isomorphism mechanisms: coercive forces that stem from political influence and problems of legitimacy; mimetic changes that are responses to uncertainty; and normative influences resulting from professionalisation. The identification of these mechanisms has been very important in understanding the institutionalisation process. However they are somehow rather general and do not capture the dynamics of field constitution. Analysis of the ethical investment field suggests that field construction is a complex process created through actions of, and interactions between, actors and involving a portfolio of micro-mechanisms that go on in combination and interrelation with each other.

The case of ethical investment illustrates several mechanisms, some of which have already been mentioned earlier in the dissertation. The following list builds on existing macro mechanisms and proposes new micro mechanisms:

- the capture of ethical investment by mainstream financial institutions;
- the local motives which stimulate actors to enter the field (Olson et al., 2003);
- the identity crisis;
- the mimetic adoption of criteria for ethical investment funds (DiMaggio & Powell, 1983);
- the normative forces that result from professionalisation (DiMaggio et al., 1983);
- the creation of new platforms that bring together actors of the field (all or some of them) in new combinations and venues (Olson et al., 2003);
- the delegation of the screening activity to rating organisations that provide them with an important intermediary role;
- the co-optation by corporations of the setting of ethical standards;
- and the appropriation of some aspects of ethical investment by corporations.

The idea of ethical investment has been transposed in different contexts, by different actors, motives and logics. 'Transposition'[7] refers to ideas, or schemas in Sewell's term, that can be brought in a new and not fully predictable situation when the opportunity arises (Sewell, 1992). There is the appropriation of an idea in a novel situation which often generates reinterpretation or translation (Czarniawska & Joerges, 1998; Czarniawska & Sevón, 1996; Olson et al., 2003).The shifts analysed in Chapter 5 – from a religion-related activity to an activist tool and then to a commercial project – can be described as transposition. This constitutes a crucial phase in the institutionalisation of ethical investment. Before that ethical investment was a minor activity within society, not organised, and connected to marginal actors. In the 1990s, ethical investment was captured by financial institutions. This significant transposition was accompanied by a translation of the sustainable development concept within this new context.

The capture of ethical investment by financial institutions has been gradual and was underpinned by different local motives. This mechanism explains "why actors situated in diverse and disconnected social locations find themselves drawn to" be involved in an activity, in this case ethical investment (Olson et al., 2003). It started with socially and environment-oriented banks such as Triodos, that had strong *internal motives* for launching an ethical fund. In the 1990s Dutch banks faced increasing *coercive pressures* to become 'green'. These pressures came from customers who increasingly asked for

[7] 'Transposer' (transpose) in French means: "faire changer de forme ou de contenu en faisant passer dans un autre domaine: (to cause something to change in form or content by causing it to pass into another domain), Le petit Robert (date 1999)

'sustainable' products and services but also from governmental and intergovernmental organisations such as the UNEP Financial Institutions Initiative in 1992 and the Dutch Policy Document on Environment and Economy of 1998/1999 (see Chapter 6). Dutch banks faced increasing pressures regarding their commitment to sustainability. Ethical investment was perceived as an opportunity to reduce those pressures. However the activity needed to be reformulated and reshaped to fit into the financial sector's norms and values. Mainstream financial institutions did not want to be associated with the 'deep green' movement, or "*moral preachers*", "*fundamentalists*" organisations.

The capture of ethical investment by financial institutions brought new motives and logics but also a new concept: sustainable development. When ethical investment started in the Netherlands (beginning of the 1990s), there was no reference to the concept of sustainable development. The early stage of ethical investment in the Netherlands was a transition phase involving several shifts: from an activist activity to a commercial project; from ethics to sustainability; from ad-hoc to a standardised screening; from a marginal to a mainstream activity involving translation. The activity of ethical investment was new and unknown to financial institutions — they did not know what it was and how to do it – but sustainable development was also a novel concept for them.

In the 1990s and especially towards the end of the 1990s, when mainstream financial institutions became dominant in the field, ethical investment became an arena of numerous conflicts and struggles. As it was pointed out in Chapter 6, there were different motives that were source of conflicting logics within the field but also of an 'identity crisis'. First adopters/developers of ethical investment in the Netherlands, the social banks, operated in reference to its previous form (before the 1990s shift). Their motivation was related to protection of the environment and respect for the people. However, because there was a demand from their clients to develop an investment product, ethical investment offered them the opportunity to satisfy their clients and to keep their 'green and social' image. When mainstream banks started to adopt this activity, its identity changed. First adopters could not recognise it any more or identify with this new form of ethical investment; ethical investment had lost its initial (for them) identity. This clearly comes out in the distinction between 'old' and 'new' funds described in Chapter 6. Fund managers of the 'old' funds do not associate themselves with the identity and image of the 'new' funds, and vice versa.

However, 'old' funds are tending to change to look more like the 'new' funds. As noted by Sevón (1996), organisational identity is not stable; it develops in "an ongoing and never-completed accomplishment" (Sevón, 1996). 'Old' funds are slowly changing in accordance with the new wave of ethical investment funds (the 'new' funds). For example they are adopting the same wording – they already have or are thinking of changing the name of the fund to use 'sustainable' instead of 'ethics' — and they are reworking and changing their criteria and methodology – fewer exclusionary criteria. The change in criteria is not a choice but rather, it is imposed by the development of the rating organisations. Because the screening and rating activity have been delegated to a professional body, the rating organisations, fund managers are dependent on what rating organisations provide. Rating organisations have developed during and around the new wave of ethical investment funds, that is the mainstream financial institutions' funds. These funds privilege comparative criteria and the CSR model. The professionalisation has been a source of normative force on the fund creating resource dependencies — fund managers do not have the choice but use what rating organisations provide, and norms — rating organisations are developing (in an international context) norms for screening companies (see for example the SiRi Group).

The process of translation took some years and involved international organisations. The first funds in the Netherlands were copied from experience abroad (US and UK) because they had no know-how. This very first phase of mimetism did not last long. Soon, and especially due to the spreading of ethical investment to mainstream financial institutions, adjustments were necessary and were delegated to Triodos Research, the Dutch rating organisation (delegation mechanism), which became the expert in ethical screening.

Rating organisations have played an important role as intermediary in the process of translation (in the Netherlands but also in other countries such as France, see (Dejean, Gond, & Lecas, 2003)). Triodos Research was created by one alternative bank, Triodos Bank, and in 2000 it became an independent organisation owned by three financial institutions among which the initial founding bank, one mainstream bank and one pension fund. This development reflects what happened to the field of ethical investment, captured by mainstream financial institutions. Mainstream financial institutions became a dominant actor in the field bringing with them new motives and logics. Rating organisations developed the idea of ethical investment to transform it into an activity that was compatible with mainstream financial institutions' logics and the more general sustainable development trend. The story of Triodos Research shows the process it went through. It involved a redefinition of the criteria (to rework them in the framework of the sustainable development concept), homogenisation (something that could be applied to all clients and to all companies screened but also something that could be comparable with international practices), and procedural approach (something that could be checked and repeated).

The creation of new platforms and venues has contributed to the mechanism of translation. Following/building on the working paper by Olsen *et al*. (2003) on environmental management codes, ethical investment has created new activity platforms that "bring together actors in new combination and venues" (Olson *et al*., 2003). The new venues identified in this dissertation are rating organisations, ethical advisory committees, networks and conferences. The rating organisations have been specifically created for the activity of ethical investment. Their role is important, both as intermediaries translating sustainable development in the activity of ethical investment and as diffuser of ethical investment among financial institutions (especially through professionalisation). Ethical advisory committees have recently become the 'normal' thing to do for running an ethical investment fund but also for rating organisations. The committees are platforms where individuals from various organisations discuss and exchange ideas related to ethical investment and sustainable development. Their role is to provide advice to the fund or rating organisations management teams but also to provide legitimacy to funds or rating organisations' decisions (related to criteria or selection decisions). Networks such as VBDO in the Netherlands, or Eurosif at the European level and conferences such as the TBLI have increased. They provide platforms where the activity is discussed, diffused, and shaped.

Corporations directly and indirectly <u>co-opted the setting of ethical standards</u>. On the one hand they did so directly and strategically by <u>claiming some elements of ethical investment</u>, namely the sustainability indices. They turned sustainable indices into CSR certification and thereby conferred a legitimacy power on ethical investment. This appropriation mechanism reinforced the 'successful' story of ethical investment and made financial institutions and corporations allies instead of enemies. And on the other hand they co-opted the setting of standards indirectly by, in the broader context, playing an important role in defining what is sustainable development. It is indirect because it was not directly meant to influence the activity of ethical investment and started well before ethical investment got involved in the stage of sustainable development.

The micro-mechanisms described above are only illustrative and need to be further explored. They are of a different kind and nature, happening at different levels (ranging from micro to macro) and different times. They do not necessarily occur independently; on the contrary they are combined and interwoven. They generate different outcomes but all contributed to the formation of the field. In order to investigate such micro-mechanisms, institutional research needs to focus on case studies or ethnographic methods in order to get information at the micro level rather than focus on the macro level.

8.4 Closing commentaries

This dissertation began by posing the broad question: What is the potential of ethical investment to contribute to sustainable development? This section discusses some possible answers suggested by the dissertation. The aim is to raise new questions for actors of the field of ethical investment rather than bringing any answers.

Yes, ethical investment increases shareholders' awareness of sustainability issues…

Ethical investment offers a means to diffuse information related to sustainable development within a specific group of social and economic actors, and investors, and therefore may stimulate social and environmental awareness. It may encourage investors to reconsider their investment strategies but it may also trigger investors' questions on corporations' behaviour and practices: What can one expect/want from companies? How far can a company go? What are they accountable for? Because investors are also consumers, such reconsiderations and questions may affect their consumption behaviour.

The tables displayed in Chapters 5 and 6 show that the number of ethical funds and the amount invested under ethical criteria is increasing. Investors are increasingly inclined to integrate social and environmental criteria in their investment strategy. The reasons why they do this vary from personal principles/beliefs to economic gain. Companies have also recognised this growing interest for ethical investment funds, and although they do not feel an immediate threat, they are watching developments very carefully.

…but investors have disengaged from the process of ethical investment.

Professionalisation and institutionalisation have created a distance between investors and companies. A characteristic of ethical investment in the 1970s in the US was the engagement of the investors to change corporations' behaviour either by going to the shareholder meetings or by lobbying companies. For investors, ethical investment was a way to enter in direct contact with corporations. In its new form as a commercial project in the Netherlands, investors have not had these contacts. Investors have delegated all responsibilities for engagement to the financial institutions which, in the Dutch context, are not active in attending shareholder meetings or lobbying companies. It is for this reason that investors were not directly approached in this dissertation.

Moreover, investors do not have much choice as to what is ethical or sustainable. Criteria for ethical investment funds have been pre-defined and they have little if any influence on them. Criteria have been standardised (to a certain extent). When investing in an ethical fund, investors do not have to think about what it means and how it works. They pass on the entire responsibility to manage the fund to financial institutions. As a result, they are hardly involved in the debate about sustainable development; they do not question companies' behaviour themselves; and they show limited interest concerning what types of companies are in the portfolio.

The distance between investors and companies and the disengagement from the screening process limit the influence of ethical investment on the investor-consumer. It reduces the potential to increase awareness and it diminishes the chance of influencing the consumption behaviour of investors. What are the chances that investors will ask themselves "If a company is said to be not ethical enough to include in one's investment portfolio, is the same company ethical enough for me to buy its products?" if there is no personal involvement or questioning.

Yes, ethical investment initiated a reform within the financial sector to consider the concept of sustainable development…

Ethical investment is one of the most active banking activities related to sustainable development. It attracts a growing number of financial institutions. By the end of 2002, most of the mainstream banks in the Netherlands offered an ethical investment fund. The launch of an ethical fund has, in some cases, entailed the creation of special units within the financial institution devoted to sustainability issues. It has encouraged financial institutions to think about the concept of sustainable development and produce documents stating their perspectives and views about it. The activity of ethical investment has also favoured the involvement of financial institutions in specific networks such as VBDO or conferences such as the TBLI where they have the opportunity to discuss issues related to sustainability.

Ethical investment has been an important phenomenon. It has brought significant changes within the investment activity and has initiated a reform within the financial sector to consider the concept of sustainable development. The word 'reform' is intentionally chosen because in involves important structural and procedural changes in a highly institutionalised sector. For example pension funds, such as PGGM, started to revise their investment strategies in order to integrate sustainability criteria. Ethical investment played a significant role in increasing awareness within the financial sector and promoting sustainable development.

…but institutionalisation has created a distance between financial institutions and actors in the ethical investment field. .

Professionalisation has been an important factor for the diffusion of ethical investment; however it also created a distance between certain between financial institutions and corporations & NGOs.

Chapter 2 proposed an analysis of the Triodos Bank network related to ethical investment activity at two specific points in time: 1997 and 2002. It showed that the intensity of contacts of the Triodos Bank with companies and NGOs diminished. This was also noticed in the case of other Dutch banks in Chapter 6. Financial institutions have delegated the social and environmental screening to rating organisations and therefore have limited contacts with actors in the field, except rating organisations. Rating organisations are in charge of the screenings and the updating of the social and environmental criteria. They are monitoring the contacts.

Rating organisations have become an intermediary creating a distance between financial institutions and companies and limiting the interest and involvement of financial institutions in the debate concerning sustainable development criteria. Some of the interviews show that financial institutions do not wish to enter into the difficult debate about what a sustainable company is: "*We don't have training [on sustainability or CSR] because an external manager [rating organisations] does that [the screening] for us*" (P7). The creation of such a distance between financial institutions and actors in the field sets question marks over the integration of the activity within the organisation and the potential of ethical investment to influence other activities of the bank. A number of fund managers said that they were an "*island in the bank*".

If institutionalisation has on the one hand reinforced connections between some actors, especially between rating organisations and other actors, it has on the other hand reduced the contacts between financial institutions and other actors in the field. Responsibilities have been delegated to the 'experts', the rating organisations and thereby financial institutions have a limited involvement in the process of ethical investment. This distance limits the potential of ethical investment to promote and stimulate sustainable development within the financial sector.

Yes, ethical investment stimulates the debate around sustainable development…

From the ethical investment field emerged a number of new organisations such as rating organisations, ethical investment-related organisations (for example VBDO and SODP in the Netherlands, Eurosif, etc), but also conferences. As was mentioned in the previous section, new platforms and venues were created (in reference to Olsen et al. (2003)) allowing new patterns of interaction between actors. These platforms and venues stimulate the debate on sustainable development. This promotes the translation of the concept of sustainable development from an abstract concept to a pragmatic set of criteria to assess corporate sustainability performance.

…but standardisation may paralyse the debate.

Chapter 6 pointed out that the activity of ethical investment is becoming standardised. Criteria and methodologies are becoming increasingly similar. This development is a characteristic of the institutionalisation process (DiMaggio et al., 1983).

A number of actors in the field of ethical investment welcome and encourage standardisation. There are a lot of advantages related to standardisation. It enables better co-ordination, facilitates interaction, enhances compatibility and makes communication easier. "The knowledge or expectation that others are following a certain standards makes it unnecessary to spend time and resources gathering detailed information about the likely behaviours of others" (Brunsson & Olsen, 1998). It also makes it easier for companies. It reduces the number of possibilities and questions they need to consider. However standardisation also raises many questions.

The standardisation of ethical investment has transformed the activity: it has moved from asking critical questions to assessing whether or not companies comply with certain standards. Through the institutionalisation process, ethical investment has lost some of its capacity to be critical. It is now principally about conforming. For example ethical investment does not want to get involved in sensitive issues such as globalisation (see Microsoft monopolistic behaviour case).

One might wonder whether standardisation is an added value for influencing corporations to move towards sustainable development. If ethical investment is to stimulate sustainable development, it raises the following question: are the criteria of ethical investment funds stimulating sustainable development? How can one know what standards are best? Are the standards applicable to all or only to those that have taken part in their development? But also one may argue that standardisation sterilises discussions and debates around the issue of sustainable development rather than stimulate it.

Yes, screenings have evolved and developed towards a system that rewards the 'best in class' corporations…

Criteria for ethical investment have developed over time. Chapter 5 highlighted four generations of screenings evolving from exclusionary, to inclusionary, and lately comparative. Comparative screening offers a new approach: it does not focus on negative aspects but on the positive aspects of companies' policies and practices. Instead of excluding 'bad' companies, it is a way to select the 'best in class'. It is based on a system of reward rather than punishment. The intention is to stimulate corporations to improve their sustainability performance.

…but the screening system is for an important part based on information provided by corporations themselves.

The new generation of ethical investment funds favours comparative screens rather than exclusionary criteria. However this development brings a dependency problem: rating organisations becoming dependent on corporations.

There is an important difference between exclusionary and comparative screenings. Exclusionary screening is based for a large part on information provided by third parties such as trade unions and NGOs. Comparative screening is for a large part based on information provided by the company. The criteria deal with corporate management systems, policies, or business principles. For example they ask whether the company has an ISO 14000 certification or business principles; whether company policy covers or mentions human rights, environmental problems, animal welfare. The sources of information for carrying comparative screenings are company reports, interviews with company manager, websites. NGOs and other third parties are hardly consulted for this type of screening because they are seen as less relevant.

This new development has made rating organisations, those that carry out the screening, dependent on the information corporations are willing to provide. Without the information provided by companies, rating organisations can only produce very limited company profiles. Companies provide them with raw material that they treat. This raises some questions related to corporations exerting pressures on rating organisations, the impact on the screening results, but also the objective of ethical investment: What does ethical investment want to assess?

Yes, ethical investment has become a product offered by mainstream financial institutions…

Ethical investment has become a product offered by mainstream financial institutions. This development has had a significant impact on the size and number of funds applying ethical screening. Their involvement in the field has had a positive affect in turning ethical investment into a viable commercial project. In the future, it may also enable ethical investment to reach a critical mass which will provide the ethical investment community with a financial power over companies.

…but it involves new types of relationships raising new dependency problems.

Firstly, stock-quoted corporations are customers of mainstream financial institutions. The first financial institutions that launched an ethical investment fund in the Netherlands were niche banks. These do not have stock-quoted corporations as clients. Their clients are small and medium enterprises, usually not stock-quoted or part of the top 500. However mainstream financial institutions have stock-quoted corporations as clients.

This creates a difficult situation: on the one hand mainstream financial institutions have to satisfy their clients, and on the other hand they may exclude a company, which is one of their clients, and thereby declare it to be a ‘bad company’. Mainstream financial institutions must therefore be careful in excluding corporations because this may have repercussions on other parts of their activity.

Secondly, mainstream financial institutions are themselves stock-quoted companies and are thereby themselves subject to screening. They have another stake: their own reputation. It is in their own interest to be listed on the ethical investment funds or indices. If they offer a product claiming to select only ethical or sustainable companies and they are themselves excluded from these types of portfolio, this may create some confusion.

The two points developed above show that new types of relationships have developed creating some dependency problems: financial institutions are to a certain extent dependent on stock-quoted corporations because they are their clients; financial institutions need a good rating for their own reputation. These new types of relationships and connections need to be considered more in depth as they may diminish the room for manoeuvre of the ethical investment community. One risk is that it may pull ethical criteria down and thereby deprive ethical investment of all its capacity to be critical as well as its potential to stimulate sustainable development.

Yes, ethical investment creates some pressure on corporations…

In a previous section, it was argued that the ethical investment community is exerting coercive pressures on companies to improve their sustainability performance.

…but it raises the decoupling issue.

The ethical investment community joins a larger sustainable development-related community (as described in the previous section) to exercise coercive pressures on companies. Companies are asked to move towards sustainable development. In order to select and name the most sustainable companies, the ethical investment community screens companies. Ethical screening is for a large part based on information provided by corporations. This is especially true for the comparative type of criteria. If companies want to get a good ethical profile, they need to disclose information. Therefore the ethical investment community is pushing companies to publish reports. And this is what companies are doing. The analysis of the six corporations has shown that companies are increasingly reporting, setting up special departments for answering questions, and establishing business principles. This raises the following question: Does this mean that corporations have moved towards sustainable development?

Disclosing information related to social and environmental matters is an important step but is it enough to stimulate change towards sustainable development? One may wonder whether the pressure exerted by ethical investment to report more is the right kind of pressure. One of the risks is that it may push companies towards buffering strategies rather than new practices and behavioural change. In Oliver's framework (1991), buffering refers to "an organisation's attempt to reduce the extend to which it is externally inspected, scrutinised, or evaluated by partially detaching or decoupling its technical activities from external contacts" (Oliver, 1991).

Decoupling is a mean by which organisations increase legitimacy. Companies adopt new behaviour and practices ritually or ceremonially in order to hold back the institutional pressures to change at a more fundamental level.

Isn't this what a large number of companies are doing because of CSR pressures? And isn't ethical investment helping the decoupling process by basing its assessment mainly on corporate information disclosure?

Ethical investment provides an easy way for a company to get the label of a 'sustainable company'. If a company provides enough information in the way it is required and if it is ready to answer questions, it is almost guaranteed to get a reasonable profile. This stimulates companies to undertake a symbolic adoption that involves separating structural elements from internal activities, mounting external displays of confidence, and inviting ceremonial inspection to protect core operations from external scrutiny (Meyer & Rowan, 1977a). Decoupling may be seen as what some environmentalists call "green washing" (Beder, 1998; Tokar, 1997; Greer and Bruno, 1998). Meyer and Rowan implied that decoupling is inevitable – that its converse, close alignment between institutionally-demanded change and the organisation's technical systems, harms organisations because it "merely makes public a record of inefficiency and inconsistency" (1977).

If the ethical investment community wants to make a positive contribution to sustainable development, it needs to break the negative circle of decoupling. The institutionalisation of ethical investment has made it rely on standards which are mainly based on corporate communication such as business principles, social and environmental reporting. Ethical investment needs to get further than corporate communication. Communication is necessary for awareness. But it is also necessary to go more in depth and to check whether corporations do what they say. Is it the role of the ethical investment community to carry out this task? The question remains open. In any case it cannot do it on its own. The ethical investment community could take part in the new task and try to stimulate others to get involved in it too.

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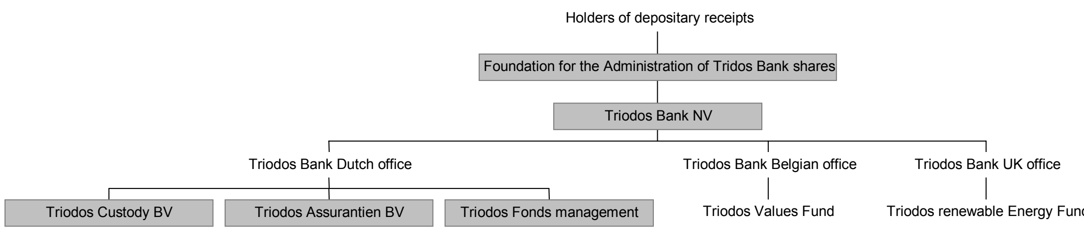
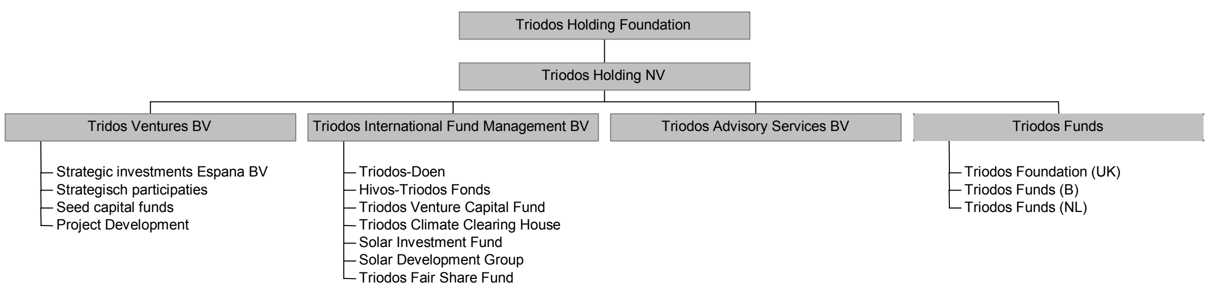
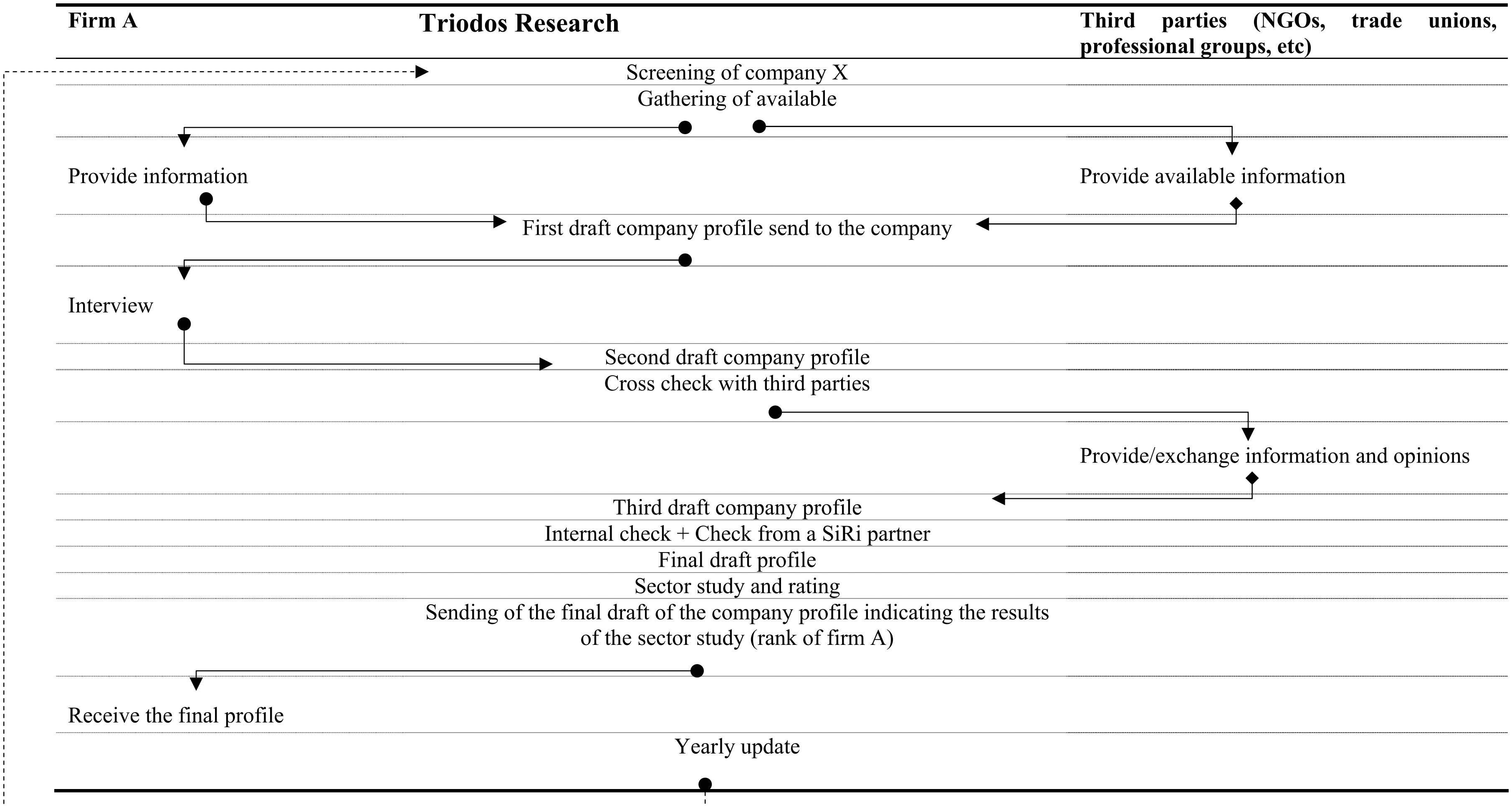
Annexes

Annex 1- Structure of Triodos bank and Triodos Holding (Triodos Bank, 2002)





Annex 2- Company screening: interactions among company, rating organisation, and third party



Annex 3- Corporation sampling procedure

SAMPLE UNITS

a) *Primary sample unit: Triodos database*

The primary sample unit is defined by the database available at Triodos Research. It consists of stock-quoted corporations that have been screened according to social and environmental criteria by Triodos Research analysts. As of December 6th 2001 the database contained a total of 631 companies world-wide.

b) *Secondary sample unit: country - Dutch companies*

Triodos Database contains corporations from 16 different countries. For practical and consistency reasons – the research is based in the Netherlands, interviews were conducted with Dutch ethical fund managers – the nationality criteria is used in this secondary sample unit. Dutch companies are selected from the primary unit in order to compose the secondary sample unit. This results in 101 Dutch companies.

c) *Tertiary sample unit: Sectors*

As of December 2001, companies were not all screened according to the same process. There are two different processes. For a majority of the firms the screening has been carried out within the framework of a sector study. It means that companies have been screened and then compared to the corporations of the same sector of activity. Their social and environmental performance is assessed and ranked against all the companies of the same sector including firms from different countries. 'Sector' represents the sector of economic activity. From 1997 to 2000 the sector classification used was the AEX. Since 2000 the MSCI classification has been used. For the purpose of the present research, a 'sector study' refers to the Triodos designation, which may concern the AEX or the MSCI according to the date the sector study was carried out. Among the sector studies there are several kinds of studies (this is a result of Triodos Research changing over time): national, European and world-wide sector studies. This is not taken into account in the selection of sectors.

The second way Triodos Research screens companies is by considering the firm on an individual basis. In this case, the corporation is not compared to the rest of its sector but screened independently of the sector's performance. The company is therefore not ranked but only assessed. Such a screening is usually conducted when a client has a specific demand concerning a company. The company is then provisionally screened until a sector study has been carried out.

The selection criteria for the tertiary sample unit are at two levels. The first one concerns the screening methodology: to be selected a company should be part of a sector study. In the secondary sample there are 12 sectors in total for which Triodos Research have carried out sector studies. This represents 70 companies. 28 other companies were also screened but are not part of a sector study.

The second criterion of selection concerns the sustainability indices, namely the Dow Jones Sustainability Index, and FTSE4Good. The sustainability indices are the most 'visible' instrument of sustainable investment. The observation at Triodos Research showed that in general companies are very sensitive to being taken up in a sustainable index. The selection criterion relates to the sectors: to be selected a sector should contain at least one company listed on a sustainable index. Both criteria have to be fulfilled in order for the company to be part of the tertiary sample unit. The first one was motivated by practical reasons. Sustainable indices were chosen as criterion because their creation has been a crucial event in the development of ethical investment. The criterion is related to the question whether or not being listed (or not) on an index has an effect on the company's behaviour.

Out of the 12 sectors 4 fulfilled the second condition: financial institutions, media, oil & gas, and food. The financial sector was excluded from the sample for methodological reasons. Some of the financial institutions investigated for the purpose of the research (FI1 to FI10) would also have been found in the corporation sample. As of December 2001, the Oil & Gas sector study consisted of only one company. It was therefore coupled with the sector study 'Chemistry'. These two sectors do have a close connection regarding their activities, and the social and environmental issues at stake. The name of the sector study remained 'Oil & Gas'. The tertiary sample is composed of 22 corporations distributed over 3 sectors.

d) *Final sample unit: Companies*

The purpose of the final sample unit was to select companies that would be investigated and constitute small case studies. In order to finalise the sample of companies the following conditions had to be fulfilled:

- Sectors have been classified according to their 'sensitivity' to sustainability-related issues (see below what is meant by sensitivity in the variable 'sector of activity'). Out of the 3 sectors selected in the tertiary sample, 2 have been classified as 'sensitive' and 1 as 'less sensitive'.
- It was important to have at least one sector of each category, sensitive and less sensitive. All companies should be eligible for the sustainability indices and therefore should be listed on the FTSE 300 index and on the Dow Jones Stoxx 600.
- In each sector a pair of companies was selected: one company listed on a sustainable index and one not listed. In case of sectors with two or more companies listed on a sustainable index then the company the most often listed was selected (case of the food sector). In the case where no possible pair could be found in the sector, the whole sector was excluded (case of the food retail sector where there was only one company). In cases where two companies were listed in the same number of sustainable indices, the criteria used to choose one of them was its selection in the Triodos Portfolio. The idea was to find a balance between selected and not selected (case of the media sector).

After the selection process, the study population consisted of 6 companies constituting the elements of the sample (see Table 47 below).

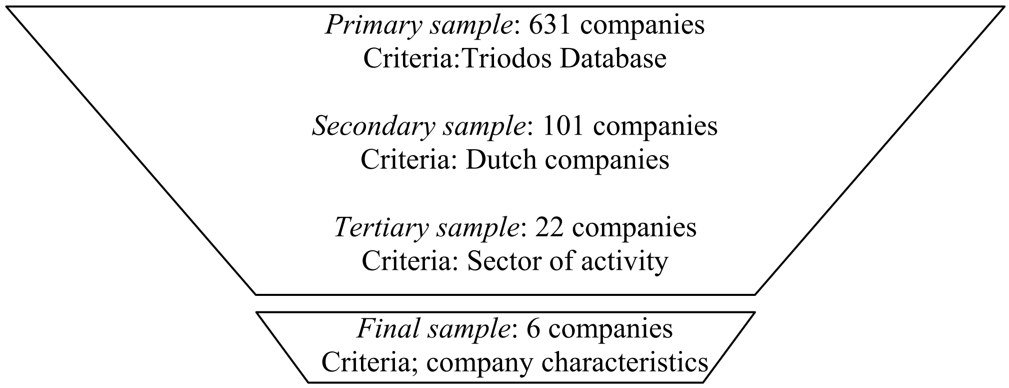


Figure 28 – Selection of the final sample of companies

VARIABLES

- *Sector of activity*

The sector of activity is of importance because not all sectors are exposed in the same way to social, environmental and political issues. Sectors in direct contact with consumers are more exposed/sensitive to pressures exerted by sustainable investment. That is the case for example of the food industry. Sectors that are considered as major polluters or are involved in controversial activities are more sensitive sectors. That is the case for example with the oil and gas, and chemistry sectors. Moreover, the observation and experience at Triodos Research show that some firms were more likely than others to change towards sustainability and to cooperate with the research department than others. On the other hand some firms have no interest and willingness to improve their sustainability performance and to communicate with Triodos Research. Presumably institutional pressures are less strong and make the companies less susceptible to change their behaviour. For these reasons sectors have been divided into two categories: 'sensitive' and 'less sensitive'. Sensitive sectors are also sectors that, because of a certain history or specific perceived risks, are very closely watched by the whole society and especially the sustainable investment community.

The following sectors have been selected in the tertiary sample:

- Food and food retailing, especially because of the GMO issue, are sensitive sectors
- Oil & Gas, due to a long history in polluting and behaviours in third countries, is a sensitive sector
- Chemistry, due to a long history of polluting, is often on the black list of sustainable investment funds, and is a sensitive sector
- Media, because they have eliminated all the printing activity and only deal with writing and editing, is a less-sensitive sector. Moreover no major issues have arisen.

- *Listed on a sustainable index*

There are several so-called sustainable indices. Three of them are the most well-known both by companies and investors: the Dow Jones Sustainable Index World, Dow Jones STOXX for Europe, and FTSE4Goods. The observation at Triodos Research and interviews with the managers of sustainable funds in the Netherlands showed that they are the most used and the most watched by the financial community, as well as the business community. These indices are used as one of the references for the selection of companies.

Other sustainable indices, such as ASPI Eurozone launched in July 2001 by Arese, or Triodos Sustainable Investment Index, are less well-known and have never been mentioned by the sustainable fund managers. They are therefore not considered in the sampling procedure.

- *listed on the FTSE 300 and/or DJS 600;*

"The FTSE Eurotop 300 is designed to represent the performance of companies resident and incorporated in Europe, providing investors with a set of indices that measure the performance of the 300 largest capitalised European companies (FTSE, 2001). "The FTSE Eurotop 300 Indices consists of the largest 300 European companies by full market value i.e. before the application of any investibility weightings, which qualify under Rule 4 as eligible for inclusion in the index."(FTSE, 2001)

"The Dow Jones STOXX Total Market Index (TMI) cover 95% of the free float market capitalisation on the investigable stock universe…

The Dow Jones STOXX 600 size index cover the largest 600 stocks in the Dow Jones STOXX TMI in three ranges: Dow Jones STOXX Large 200 index (largest 200 stocks); Dow Jones STOXX Mid 200 index (next largest 200 stocks); Dow Jones STOXX Small 200 index (next 200 stocks).

The above Dow Jones STOXX size indexes are combined to produce: Dow Jones STOXX 600 index: Largest stocks in the Dow Jones STOXX TMI by combining the above Large 200, Mid 200, and Small 200." (STOXX Limited, 2001)

Priority is given to companies listed on the FTSE 300 and Dow Jones STOXX 50 for the following reasons: 1) in order to have comparable companies in terms of capitalisation and to select the biggest capitalisation (consistency in the sample); 2) since the launch of SIRI, Triodos Research has been focusing on companies listed on the FTSE 300 for Europe and S&P 500 for US; 3) "The majority of the holdings in the Fund -FTSE4Goods- will be from companies within the FTSE 350 Index, which comprises the biggest companies listed on the London Stock Exchange." (Close Fund Management, 2001); "the Dow Jones Sustainable indexes, DJSI World and DJ STOXX SI, track the performance of the top 20% of the companies in the Dow Jones 600 Index that lead the field in terms of sustainability"(DJSI, 2001).

- *Triodos sector study*

Triodos Sector Study means that a sector study has been carried out. There are three types of sector study: World, Europe or National. Companies from one sector are compared according to their sustainable performance. A European Sector Study selects all European companies from one sector – according to the MSCI classification – listed on the FSTE 300. A World Sector Study compares companies from one sector according to the MSCI classification that are listed on the FTSE 300, S&P 500 and the Japan Nikkei Stock Index 300. World Sector Studies have not yet fully developed due to a lack of research partners in certain countries. Only a few World Sector Studies have been conducted (oil & gas, pharmacology).

- *SiRi Profile*

In order to have homogenous screening and information about the companies, corporations screened according to the SiRi Group standards were favoured.

CONSTANTS

- *Listed on the stock market*

The sustainable investment universum solely consists of companies that are listed on the stock market. Therefore the sample of companies should only be composed of companies that are stock quoted.

- *Dutch companies*

For practical and consistency reasons the sample of companies has been reduced to a specific country: the Netherlands. The sample should exclusively be composed of Dutch companies located in the Netherlands. The practical reason for this is that the interviews were intended to be face to face. With the research project being located in Holland, it made sense to select Dutch companies. For the sake of consistency, all the interviewed sustainable fund managers in the sample were employed by Dutch funds. Choosing for one single country instead of companies from different countries was also a way to avoid national differences, such as cultural and regulatory.

- *Available in the Triodos Research database*

Thanks to the involvement in Triodos Research as observer-participant during the whole research, access to the Triodos Research database was made possible. It is a very large database gathering information on companies across the world. It includes Triodos Research's own research as well as the databases of EIRIS, KLD and SIRI.

UNITS OF OBSERVATION

In each of the companies composing the final sample the persons targeted for the interviews were the following:

Person/function targeted	Reasons for the choice
Chief Executive Officers	- Custody values of the companies - Strategic level - Accountable for the companies' behaviour
The corporate communication, investor relations or issue manager	- This person is the immediate respondent to external demands and questions - Corporation reputation
Environmental Manager	- Knowledge and experience the implementation of the company's strategy and values - Specific focus on one aspect of ethical screening
The person who answered questionnaires for ethical investment	The person who answered the questionnaires used by rating agencies for sustainable indices (SAM and EIRIS) might be one of the above persons (often the investor relation or corporate communication). Reasons for this choice are the following: - how the questionnaires are handled - perception of sustainable investment - reaction to the questions asked

Company	**Sector Study Triodos**	**MeerWaarde Fonds**	**MSCI**	**DJ S 600**	**FTSE 300**	**DJ Stoxx**	**DJ SI World**	**FTSE4 Goods**	**Sensitive sector**	**SIRI profile**
C1	Oil&gas	Not Selected	x	x	x	x	x	x	Yes	
C2	Oil&gas	Not Selected	x	x	x				Yes	x
C3	Food	Selected	x	x	x				Yes	x
C4	Food	Not Selected		x	x	x	x	x	Yes	x
C5	Media	Selected	x	x	x	x			No	x
C6	Media	Selected	x	x	x				No	x

Table 47 - Final sample of companies as of December 2001

Annex 4- List of the interviews conducted

Intervie-wees	Organi-sation	Date (d/m/y)	Place	Length	Function (at the time of the interview)
Financial institutions					
P1	F1	31/10/01	Interviewee's office	1.30	Director general
P2	F2	26/10/01	Interviewee's office	1.30	Asset manager
P3	F3	16/11/01	Interviewee's office	2.00	Asset manager
P4	F4	02/22/01	Interviewee's office	1.30	Assistant Director - Sustainable Investments
P5	F5	14/11/01	Interviewee's office	1.30	SRI director
P6	F6	29/11/01	Interviewee's office	0.45	Chief Investment Officer
P7	F7	07/11/01	Interviewee's office	1.00	Corporate Governance & Sustainable Investments
P8	F8	20/11/01	Interviewee's office	1.15	Senior Portfolio Manager
P9	F9	28/11/01	Interviewee's office	2.00	Sustainability Analyst
P10	F9	31/10/01	Interviewee's office	1.00	Head of Financial Consultancy & SRI
Corporations					
P11	C1	25/04/02	Interviewee's office	1.00	Former CEO
P12	C1	20/03/02	Interviewee's office	1.00	Issue manager
P13a	C2	26/04/02	Interviewee's office	1.00	Staff Director Technology
P13b	C2	26/04/02	Interviewee's office	1.00	Director Investor relations
P14	C3	15/03/02	Interviewee's office	1.15	Corporate Communications/Affairs
P15	C3	30/01/02	Cafe	0.45	Arbo en Milieuzaken
P16	C4	12/03/02	Interviewee's office	1.00	Communication & Reputation Director
P17	C4	13/02/02	Interviewee's office	1.30	Environmental manager
P18	C4	13/03/02	Interviewee's office	1.00	Vice President Investor Relations
P19	C5	08/02/02	Interviewee's office	1.20	Deputy Director – Corporate Communications
P20	C6	28/03/02	Interviewee's office	1.00	Director Corporate Communications
Triodos					
Bas Rüter	TR/TB	23/08/01	Triodos Bank	1.00	Triodos Research Director and deputy managing director of Triodos Bank
Miriam Miedeman	TR	30/03/00	Triodos Bank	1.00	Sustainability analyst
Thomas Thijssens	TR	06/09/00	Triodos Bank	0.45	Sustainability analyst
Mariska van Dalen	TR	10/05/00	Triodos Bank	0.45	Sustainability analyst
Peter Blom	TB	10/07/99	Triodos Bank	1.00	International Director Triodos
Peter Blom	TB	11/04/00	Triodos Bank	1.00	International Director

					Triodos
Koert Jansen	TB	11/01/01	Triodos Bank	1.00	Triodos bank employee
Group discussion	TB	10/05/01	Triodos Bank	1.00	MeerWaarde fund team
Group discussion	TR	21/05/01	Triodos Bank	1.30	Triodos Research team
Group discussion	TR	31/05/01	Triodos Bank	1.00	Triodos Research team
Other					
Piet Sprenger	VBDO	14/05/01	VBDO	1.30	Director
Steven Lydenberg	KLD	05/04/00	Triodos Bank	2.00	Head of KLD (US)
Steven Lydenberg	KLD	06/03/01	Triodos Bank	1.30	Head of KLD (US)
Martin Weiss	Delta Lloyd	30/11/98	Delta Lloyd	1.00	Asset manager MeerWaarde Fund

(TB=Triodos Bank; TR= Triodos Research)

Annex 5- Description of the five levels of the tree of questions

Level 0	It consists of one single question which is the general question of the thesis, namely: Can ethical investment be a change agent towards sustainable development?
Level 1	It consists of two questions which are the research objectives of the dissertation, one related to the institutionalisation of the field of ethical investment, and the other one to the responses of firms to the institutional pressures
Level 2	It consists of 14 issues, 9 related to the institutionalisation and 5 related to companies' responses. They are based on the theoretical framework developed in chapter 3.
Level 3	It consists of 35 issues, 25 related to the institutionalisation research question, and 10 related to the companies responses research question. These issues are an adaptation of the theoretical issues to the specific case of ethical investment. It is a first step towards the operationalisation of the theoretical issues. Ethical investment has certain specificities that require an adaptation of the theory or to emphasise certain aspects. It is the purpose of the level.
Level 4	This level is composed of blocs of questions. Each issue of the previous level has lead to questions that are gathered into blocs. It consists of 35 blocs of questions and each bloc contains a various number of questions from one to seven. The questions vary a lot according to the theoretical issue and the specificity of the field investigated.

Annex 6- Comparative analysis of the criteria used by Dutch ethical funds

Financial institution	ABF/ASN bank	ABN AMRO	Aegon	ASN	ING Bank	Kempen Capital Management	Postbank	Robeco Groep	SNS Reaal Invest	Triodos bank
Fund	Het andere beleggingsfonds	ABN AMRO Duurzame Wereld Fond	Aegon Aandelen Duurzaam	ASN Aandelenfonds	ING Duurzaam Rendement Fonds	Orange SeNSE Fund	Postbank Duurzaam Aandelen Fonds	RG Duurzaam aandelen Fund	SNS Duurzaam Anndelenfonds	Triodos Meerwaarde funds
Rating organisation	SNS	Innovest, KLD, EIRIS	SAM Sustainability Group	SNS	Triodos Research, EIRIS	SNS	Triodos Research, EIRIS	EIRIS, Innovest	SNS	Triodos Research
EXCLUSIONARY CRITERIA										
Controversial sectors										
Arms industry	2	2	2	2	2	1	2	2	1	2
Aircraft	1	0	0	1	0	0	0	0	0	2
Automobile industry	1	0	0	1	0	0	0	0	0	2
Unsustainable mining	1	0	0	1	1	0	1	0	0	2
Extraction of oil and gas	1	0	0	1	0	0	0	0	0	2
Sub-total all	*6*	*2*	*2*	*6*	*3*	*1*	*3*	*2*	*1*	*10*
Sub-total 2	*1*	*1*	*1*	*1*	*1*	*0*	*1*	*1*	*0*	*5*
Controversial products/services										
Pornography	2	2	0	2	2	1	2	2	1	2
Alcohol	1	0	2	1	1	0	1	0	0	2
Tobacco	2	2	2	2	2	1	2	2	1	2
Gambling	2	2	2	2	2	0	2	2	0	2
Nuclear energy	2	2	0	2	2	1	2	2	1	2
Production of hazarsous substances	1	1	0	1	1	1	1	1	1	2
Fur industry	2	2	0	2	2	1	2	2	1	2
Use of endangered species	2	0	0	2	2	1	2	2	1	2
Unsustainable timber production	1	1	0	1	1	1	0	0	1	2
Unsustainable form of tourism	0	0	0	0	0	1	0	0	1	2
Sub-total all	*15*	*12*	*6*	*15*	*15*	*8*	*14*	*13*	*8*	*20*
Sub-total 2	*6*	*5*	*3*	*6*	*6*	*0*	*6*	*6*	*0*	*10*
Controvercial production processes										
Violation of human rights	2	2	0	2	2	1	2	2	1	2
Violoation of ILO and OECD guidelir	2	2	0	2	2	1	2	2	1	2
Drugs	1	2	0	0	2	1	2	0	1	2
Child labour	1	2	0	1	2	1	2	2	1	2
Forced labour	2	2	0	2	2	2	2	2	2	2
Discrimination/diversity	2	2	0	2	2	1	2	2	1	2
Corruption	2	2	0	1	2	1	2	2	1	2
Animal testing	1	1	0	1	1	1	1	1	1	2
Genetic modification	1	1	0	1	1	1	1	2	1	2
Factory farming	1	0	0	1	1	0	1	0	0	2
Unsustainable agriculture/fishery methods	2	0	0	2	1	0	1	0	0	2
Unsustainable and large scale hydro	2	0	0	2	0	0	0	0	0	2
Sub-total all	*19*	*16*	*0*	*17*	*18*	*10*	*18*	*15*	*10*	*24*
Sub-total 2	*7*	*7*	*0*	*6*	*7*	*1*	*7*	*7*	*1*	*12*
Total	***40***	***30***	***8***	***38***	***36***	***19***	***35***	***30***	***19***	***54***
COMPARATIVE CRITERIA										
General										
Integration of sustainable developme	1	1	0	1	1	1	1	1	1	1
Corporate governance	1	1	1	1	1	1	1	1	1	1
Transparency/social and environmen	1	1	0	1	1	1	1	1	1	1
Supply chain	1	1	0	1	1	1	1	1	1	1
Marketing, promotion and competitio	0	1	0	0	1	1	1	1	0	1
Code of conduct	1		1	1	1	1	1	1	1	1
Sub-total	*5*	*5*	*2*	*5*	*6*	*6*	*6*	*6*	*5*	*6*
Environmental aspects										
Environmental management system	1	1	1	1	1	1	1	1	1	1
Impact on the environment	1	1	1	1	1	1	1	1	1	1
Environmental innovation	1	1	1	1	0	1	0	1	1	1
Take into consideration the environm	1	1	0	1	1	1	1	0	1	1
Transport	1	0	0	1	0	1	0	0	1	1
Sub-total	*5*	*4*	*3*	*5*	*3*	*5*	*3*	*3*	*5*	*5*
Social aspects										
Social management system	1	1	1	1	1	1	1	1	1	1
Working conditions	1	1	1	1	1	1	1	1	1	1
Health and safety	1	1	1	1	1	1	1	1	1	1
Discrimination	1	1	1	1	1	1	1	1	1	1
Trade unions	1	1	1	1	1	1	1	1	1	1

Annex 7- Institutional actors

Code	Category	Description
FI	Financial institutions and related	Organisations offering financial services such as commercial banks, private funds, pension funds, etc.
C	Corporations	Include all types of companies without sector distinction. Note that it does not contain the financial sector.
RO	Rating organisations	Providers of ethical investment research and consulting services
I	Investors	Include individual and institutional investors.
CO	Consulting organisations	Organisations providing business advisory services or business consultancy such as Deloitte Touche Tohmatsu , Ernst & Young or KPMG.
NGO	NGOs and trade unions	The World Bank defines NGOs as "private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development" (World Bank, 2001). For the purpose of the thesis NGOs is used in a wide way including any non-profit organization which is independent from government such as environmental groups and human rights organisations. A trade union is an organisation of workers created to protect and advance the interests of its members
CSR	CSR organisations	Organisations or networks that promote corporate social responsibility or/and sustainable development. These organisations are often business-driven such as CSR Europe.
EI	Ethical Investment organisations	Organisations or networks that promote ethical investment such as US SIF or VBDO in the Netherlands
IP	Index providers	Organisations that create and manage stock market indices such as FSTE in UK or Dow Jones in US.
J	Journalists	
U	Universities	Academics
G	Governments	People from governmental bodies.
IGO	Inter-gornemental organisations	Generally a public or governmental organization created by treaty or agreement between states. In the present case it mainly consist of representatives of the UNEP or EU.
O	Others	It includes all other type of organisations that do not fit in any of the above categories. Are also included organisations for which no information could be found, which may artificially increase the category.

Annex 8- Organisation connected to the ethical investment field

Name	Description	Category
Eurosif	Eurosif, founded in 2001, is a pan-European stakeholder network for promoting and developing sustainable and responsible investment. The Eurosif board is represented by the 5 Founding Social Investment Forums (French, German, Italian, Dutch (VBDO) and UK SIF). Members are mainly investment institutions, rating organisations, NGO, and trade unions (Eurosif, 2003).	EI organisation
UK&/or US SIF	The Social Investment Forum (UKSIF) is a UK's membership network for socially responsible investment (SRI). UKSIF's primary purpose: promote and encourage the development and positive impact of SRI amongst UK based investors. The Forum was launched in 1991. UKSIF's 250+ members and affiliates include retail and institutional fund managers, financial advisers, rating organisations, consultants, trade unions, banks, building societies, community development finance institutions, NGOs and individuals interested in SRI. (UKSIF, 2003)	EI organisation
ECGS	European Corporate Governance Service is an alliance of eight independent organisations which have come together to provide expert governance assessments and informed proxy voting advice for investing institutions on Europe's largest quoted companies. ECGS was launched in 2001. (ECGS, 2003)	EI organisation
CERES	CERES; launched in 1988, is a U.S. coalition of environmental, investor, and advocacy groups working together for a sustainable future. In June 2001, more than 70 companies had endorsed the CERES Principles (CERES, 2003). CERES' aim is to encourage corporation to become environmentally responsibility via the CERES Principles, working with endorsing companies both on meeting their commitment and on environmental reporting through the Global Reporting Initiative, mobilising the network in activist projects, and holding forums.	EI organisation
VBDO	VBDO, Dutch Association of Investors for Sustainable Development, was launched in 1996. The aim of VBDO is "to promote the interests of its members (Dutch financial institution), investors both private and institutional, within the overarching context of sustainable development". VBDO develops several activities or products related to ethical investment. It is the Dutch SIF representative. (VBDO, 2003).	EI organisation
CSR Europe	CSR Europe, set up in 1995, is a business-driven membership network. Its mission is to help companies combine profitability and sustainability by making corporate social responsibility a cornerstone of the way they operate. It has 57 company members, and 15 national partner organisations. According the CSR website: "European institutions regard CSR as the expert on CSR in Europe". (CSR Europe, 2003)	CSR organisation
GRI	The Global Reporting Initiative, launched in 1997, is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. It was initiated by the CERES and became independent in	CSR organisation

	2002. GRI is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with the UN Global Compact (GRI, 2003). GRI network counts more than 3,800 individuals from 77 countries, representing corporations, governments, non-governmental organisations, consultancies, accountancy organisations, business associations, rating organisations, universities, and research institutes..	
BSR	Business for Social Responsibility is a global non-profit organisation that helps member companies to achieve commercial success in ways that respect ethical values, people, communities and the environment. It started in 1992 as an association of approximately 50 companies(BSR, 2003).	CSR organisation
Samenleving & Bedrijf	Samenleving & Bedrijf, formed in 2000; is the Dutch partner organisation of CSR Europe. The initiators were waren ABN AMRO, Ordina, Rabobank, Randstad en Shell. There are today 15 Dutch companies (Samenleving & Bedrijf, 2003).	CSR organisation
BITC	Business in the Community (BITC) is a business led organisation consisting of 700 member companies committed to continually improving their positive impact on society. Business in the Community was set up in 1982 (BITC, 2003)	CSR organisation
Conference Board	The Conference Board (1916), a non-profit organisation counting 2500 member corporations, creates/disseminates knowledge about management and the marketplace to help businesses strengthen their performance and better serve society. (The Conference Board, 2003)	CSR organisation
WBCSD	The World Business Council for Sustainable Development is a coalition of 160 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. Members are drawn from more than 30 countries and 20 major industrial sectors. The WBCSD was formed in January 1995 through a merger between the Business Council for Sustainable Development (BCSD) and the World Industry Council for the Environment (WICE). (WBCSD, 2003)	CSR organisation
DuVo	In 1995 15 companies active in the food chain in the Netherlands initiated the Foundation for a Sustainable Food Chain (Duurzame Voedingsmiddelenketen). Its aims at identifying options for improvement along the production chain and to the development of infrastructures. (DuVo, 2003)	CSR organisation
UN Global Compact	The Global Compact is a network. At its core are the Global Compact Office and five UN agencies: the Office of the High Commissioner for Human Rights; the United Nations Environment Programme; the International Labour Organisation; the United Nations Development Programme; and the United Nations Industrial Development Organisation. Its aim is to advance responsible corporate citizenship.	
SNV	Founded in the US in 1987, Social Venture Network (SVN) is an association of business leaders, entrepreneurs, corporate change agents and NGOs committed to using their organisations as catalysts for change towards a more just, humane and sustainable world. SVN Europe was founded in 1993. (SNV, 2003)	CSR organisation

Annex 9– Overview of the events that marked the field of ethical investment

	Before	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Nb funds NL[1]		-	-	-	-	-	-	-	1	1	2	2	2	2	3	4	5
Nb funds EU[2]		4	-	-	-	-	20	-	-	-	-	54	-	-	-	-	159
Nb funds US_3		6	-	-	30	-	-	-	-	-	-	-	55	-	139	-	175

	Before	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Ethical investment									UKSIF					**VBDO (NL)**			
Funds	**1970: Hollandsche Koopmansbank (NL)** 1971: Pax World Fund (US)	1st UK fund: Friends Provident Stewardship							**ABF, het Andere Beleggingsfonds (NL)**								
Rating organisation	1983: EIRIS (UK)					KLD (US) MJRA (CA)		Centre Info (SW)		Caring Company (SE) Ethibel (BE) ECODES (SP)					**Triodos Research (NL)** Avanzi (IT) Arese (FR)		
Sustainable indices								Domini 400 Social Index									DJSD

	Before	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Financial institution	1980: US Superfund									UNEP FII	EC Green Paper: remedying environmental damage		**Green Savings and Investment Plan (NL)**			**Policy Dicument on Environment and Economy (NL)**	**Environmental Dialogue between Banks and Gov.(NL)**

	Before	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
CSR and sustainable development	OECD Environment Committee 1976: 'OECD Guidelines for Multinational Enterprises				Brundtland Report (SD)	CERES	**National Environmental Policy Plan (NL)**			Rio, 1st Earth summit (SD)						Revision of the OECD guidelines	GRI: 1st draft

[1] source: VBDO, 2002, *source: www.duurzaam-beleggen.nl, 12/12/02
[2]source: SiRi Group. 2002
[3]source: SFI US, 2002

Annex 10- Relationships analysis

Relationships through the advisory committees

	Financial institutions											Corporations							Rating organisations													
Actors	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	***sub. total***	C1	C2	C3	C4	C5	C6	***sub. total***	RO1	RO2	RO3	RO4	RO5	RO6	RO7	RO8	RO9	RO10	RO1 1	***sub. total***	**Total**
FI	1	0	0	0	0	0	0	0	1	1	*3*	-	0	0	0	0	0	*0*	0	1	0	1	0	0	0	0	1	1	0	*4*	7
C	0	0	1	1	0	0	1	0	0	1	*4*	-	0	0	0	0	0	*0*	0	1	0	0	0	0	0	0	1	0	0	*2*	6
NGO	1	0	0	1	0	0	0	0	1	1	*4*	-	0	1	1	0	0	*2*	0	1	0	1	1	0	0	0	1	1	1	*6*	12
I	0	0	0	0	0	0	1	0	0	0	*1*	-	0	0	0	0	0	*0*	0	0	0	0	0	0	0	0	0	0	0	*0*	1
CSR	0	0	0	0	0	0	0	0	0	0	*0*	-	0	0	1	0	0	*1*	0	0	0	0	0	0	0	0	0	0	0	*0*	1
G	1	0	1	1	0	0	0	0	0	0	*3*	-	0	0	0	0	0	*0*	0	0	0	1	0	0	0	0	0	0	0	*1*	4
U	0	0	0	0	1	0	0	0	0	1	*2*	-	0	1	1	0	0	*2*	0	1	0	1	1	0	0	0	1	1	1	*6*	10
CO	0	1	0	1	0	0	0	0	0	0	*2*	-	0	0	1	0	0	*1*	0	0	0	1	0	0	0	0	0	0	0	*1*	4
J	0	0	1	0	0	0	0	0	0	0	*1*	-	0	0	0	0	0	*0*	0	0	0	0	0	0	0	0	0	0	1	*1*	2
O	0	0	0	1	0	0	0	0	0	0	*1*	-	0	0	0	0	0	*0*	0	0	0	0	0	0	0	0	0	0	0	*0*	1
Total	**3**	**1**	**3**	**5**	**1**	**0**	**2**	**0**	**2**	**4**	***21***	-	**0**	**2**	**4**	**0**	**0**	***6***	**0**	**4**	**0**	**5**	**2**	**0**	**0**	**0**	**4**	**3**	**3**	***21***	**48**

	Fund managers											Firms							Rating organisations													
Actors	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	***sub. total***	C1	C2	C3	C4	C5	C6	***sub. total***	RO1	RO2	RO3	RO4	RO5	RO6	RO7	RO8	RO9	RO10	RO1 1	***sub. total***	**Total**
Yes	x		x	x	x		x		x	x	*7*	x		x	x			*3*		x		x	x					x	x	*5*	15
In process		x									*1*		x					*1*	x								x			*2*	4
No						x		x			*2*					x	x	*2*			x			x	x	x				*4*	8

1=yes; 0=no
C1: the company has a Corporate Responsibility Committee but as of July 2003 no information on its compostion could be found.

Relationships with EI and CSR organisations (Memberships to, sit on the boardof, networks or specific organistions)

	Financial institutions											Corporations							Rating organisations													
Actors	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	***sub. total***	C1	C2	C3	C4	C5	C6	***sub.total***	RO1	RO2	RO3	RO4	RO5	RO6	RO7	RO8	RO9	RO10	RO11	***sub. total***	***Total***
Eurosif	1	0	0	1	0	0	0	0	0	1	3	0	0	0	0	0	0	0	1	0	0	1	0	1	0	0	0	0	1	4	7
UK&/or US SIF	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	1	1	1	0	1	0	1	0	0	1	6	7
ECGS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1	0	0	0	1	0	0	0	4	4
CERES	0	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1	2
VBDO	1	1	1	1	1	0	1	0	1	1	8	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	9
CSR Europe	1	0	0	0	0	0	0	0	0	0	1	1	0	0	1	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	3
GRI	0	0	0	1	1	0	1	1	0	1	5	1	0	0	1	0	0	2	1	0	0	1	1	0	0	0	0	1	1	5	12
BSR	1	0	0	0	0	0	0	0	0	0	1	1	0	0	1	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	3
Samenleving & Bedrijf	0	1	0	1	1	0	0	0	0	0	3	1	1	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	5
BITC	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	2
Conference Board	0	0	0	0	0	0	0	0	0	0	0	1	1	0	1	0	0	3	0	0	0	0	0	0	0	0	0	0	0	0	3
WBCSD	0	1	1	1	1	0	0	0	0	0	4	1	0	0	1	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	6
DuVo	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	2
SNV	0	0	1	0	0	0	0	0	0	1	2	1	0	0	1	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	4
Total	**4**	**3**	**3**	**5**	**5**	**0**	**2**	**1**	**1**	**5**	**29**	**8**	**2**	**1**	**8**	**0**	**0**	**19**	**2**	**2**	**2**	**5**	**1**	**3**	**0**	**2**	**0**	**1**	**3**	**21**	**69**

1=yes; 0=no

Annex 11 - Institutional factors

In this section the factors proposed in Oliver's framework are adjusted/adapted to the case of ethical investment. The objective is to define specific and relevant elements, related to the field studied, for each institutional factor. These elements will be used as guideline in the next section to investigate corporations' responses to ethical investment. The elements are not fixed and can change from case to case. The specification of the factors is based on empirical data from the field of ethical investment and the Triodos Case.

Cause: Why is the organisation being pressured to conform to institutional rules or expectations?

The 'cause' factor refers to the underlying rationale or expectations associated with institutional pressures. The choice between acquiescent and more resistant strategies depends on the degree to which the organisation agrees with, and values the intentions or objectives that institutional constituents are attempting to achieve in pressuring the organisation to be more socially or economically accountable (Oliver, 1991).

Oliver (1991) identifies two main categories of institutional pressures: social and economic fitness. Criteria for ethical investment deal with social, environmental and financial aspects, therefore pressures concern both social acceptability and economic accountability.

Acquiescence is more likely if a company perceives that conformity may bring social and/or economic gain, or if it enhances the social and/or economic fitness, and it is less likely if the company perceives no strategic utility, or if the pressures are against its interests. The choice between acquiescence and resistance strategies depends on the degree to which the corporation agrees with, and values the requirements of ethical investment.

Social fitness: Reputation

Ethical investment deals with issues that can impact on the social legitimacy of corporations (see Chapter 3). Ethical investment can either enhance the social fitness of companies – for example a company is included in a sustainable index – or on the contrary it can damage its social legitimacy – for example a company is excluded from a sustainable index or the ethical screening reveals some misbehaviour to the public. A direct impact may be on the reputation/image of corporations.

Ethical investment may also have a strategic utility or serve the company's interest. For example if a company considers ethical investment as an aspect of CSR, and if CSR is part of the legitimacy rationality of the company, ethical investment may serve its rationality and reinforce its strategic position/reputation.

Economic fitness: Profitability & Share price

Although ethical investors take into account social and environmental aspects, they expect the company to produce good financial results. Share markets are driven by economic rationalities. The extent to which corporations perceive an economic rationality in being socially and environmentally responsible may play an important part in the way they respond to ethical investment.

Two elements can be derived from the economic fitness factor:

- Profitability: Stock-quoted companies are for-profit organisations and are expected to be profitable. Improving the sustainability performance may have a positive impact– resource savings – or a negative one – investment costs – on the economic fitness of companies. If the perceived costs of being ethical are too high compared to the perceived benefits, companies may resist moving towards sustainability.
- Share price: The price of the share of a company reflects the economical value of the company. If social and environmental aspects are perceived by the market as an element of the health of corporations, sustainability performance may influence share prices. If the amount of money invested under ethical or sustainable considerations reaches a certain level, it may affect share prices.

Constituents: Who is exerting institutional pressure on the organisations?

'Constituents' are the actors who exert institutional pressure on organisations. According to Oliver there are two aspects to look at when analysing the constituents: the constituent multiplicity and the dependence on constituents. Multiplicity refers to the expectations and demands from the constituents exerting pressures on the organisation: are they multiple and conflicting, or unitary and coherent? Dependence refers to resource dependency: to what extent is the organisation dependent on the constituents exerting pressures?

There are three aspects that need to be addressed by this factor: firstly, the demands from, and the dependency of corporation on, the constituents within the field of ethical investment; Secondly, the demands from ethical investment constituents and from CSR, as orporations do not always distinguish ethical investment from CSR. It may be therefore interesting to explore whether or not demands from these two fields are conflicting or similar; and thirdly, the demands from ethical investment/CSR constituents and other stakeholders of the company.

Multiplicity: Diversity of demands and requirements

The presence of multiple constituencies may lead to different expectations and conflicting objectives. When this happens, the impact of the pressures may be weaker (Powell, 1991) and organisational resistance may be easier. Conflicting institutional pressures and multiple constituents can create fragmentation within an institutional environment and reduce the degree of consensus among institutional actors (Oliver, 1991; Powell, 1991). Companies can easily avoid conforming to the demands by arguing that they cannot comply with all of them.

Not all shareholders are ethical investors. Regular and ethical investors may have different requirements. This is illustrated by the debate between social and financial performance, or environmental versus financial performance.

The demands placed by ethical investment are most of the time reflected in the criteria used for screening companies. This is the case as much for the exclusionary criteria such as animal testing, child labour or arm industry, as for comparative criteria, for which companies are asked whether they have sites with ISO 14000 certification, a code of conduct, an environmental policy, etc. The companies may perceive conflicting expectations between ethical investment and their other stakeholders, either related to CSR or not, which would preclude its ability to conform to ethical investment demands. However if expectations and demands are compatible, companies are more likely to acquiesce to institutional pressures.

Dependence: Capital providers & Voting rights

DiMaggio and Powell (1983) assert that the extent of an organisation's conformity response to pressures is a function of its dependence on the constituents exerting pressures. Resistance is more likely when the organisation has low dependence on institutional constituents. The greater the extent to which institutional constituents control the allocation or availability of critical resources for the organisation, the more difficult resistance to the expectations of those constituents will be (DiMaggio & Powell, 1983).

Ethical investors, being shareholders, provide capital to corporations. It is a crucial asset for stock-quoted companies. An important issue is to what extent corporations have the feeling that a significant percentage of the capital is owned by ethical investors, or to what extent this percentage is growing and may become significant?

Another aspect related to dependence is the issue of shareholders' rights. All shareholders are entitled to attend shareholder meetings, at which directors may be elected, dividend payments approved, by-laws modified or new capital raised. Shareholders have the right to participate in these meetings either to signify their approval or indicate their disagreement. Generally one share gives the right to one vote. However, certain companies provide for double voting rights in their by-laws for certain types of shares. Although the general meeting of shareholders has very little power to interfere with the directors' and executives' day-to-day exercise of managerial powers, shareholders may use their rights to block certain decisions.

Content: To which norms or requirements is the organisation being pressured to conform?

Oliver's third factor refers to the consistency of the pressures with the organisations' existing goals and expectations and the loss of decision-making discretion that the pressures impose on them. In order to explore this factor, it is important to focus on the way corporations perceive the requirements of ethical investment: are they compatible with their own goals and objectives? Do they constrain certain decisions or limit the freedom of choice of corporations?

Consistency: Compatibility

Inconsistency reflects organisational interests at cross purposes with institutional objectives and provokes organisational doubts about the validity or legitimacy of institutional expectations. When there is low consistency, corporations may easily question the requirements.

Three aspects need to be taken into account:

- Ethical investment criteria may be inconsistent with the corporation's goal and objectives. For example a number of ethical investment funds have banned the use of genetically modified organisms (GMO) in food, but some companies have made of GMO one of their key research & development areas. In this case the ethical investment requirement is not compatible with one of the companies' objectives. According to Oliver (1991) responsiveness is greater when institutional pressure is congruent with an organisation's existing goals and policies.

- Criteria used for ethical investment have been developed independently by rating organisations, sometimes on the basis of common frameworks and conventions such as GRI or ILO, and sometimes not. Criteria may be perceived by corporations as disconnected from business reality and from the sector or market standards.
- The requirements of ethical investment, although they may not be incompatible with the company's goal and objectives, may nevertheless not match technical standards. In this case the corporation is not capable, although it may be willing, to conform to the requirements.

Constraint: Screening process & Shareholder activism

The loss of organisational freedom stemming from conformity to institutional pressures may diminish the willingness of corporations to conform. Companies like to feel that to a certain degree they control their own organisational decisions (Oliver, 1991).

Ethical investment may be perceived as a constraint because it imposes criteria that have not been discussed with corporations. Although some rating organisations from the ethical investment field do seek dialogue with corporations, these may feel that they have little say in the outcome of the screening. If they want to be included in the ethical fund or indices they have to conform, otherwise they are excluded. There is no choice for the company. Companies might feel oppressed, misunderstood or misjudged by sustainable analysts.

Shareholders may exert pressure on the management board by raising issues during the General Annual Meetings ('shareholder engagement'). Shareholder engagement' emphasises on shareholder dialogue as a core mechanism for bringing company actions into line with the wishes of the shareholders. In this way, shareholders may influence the corporation's management.

Control: How or by what means are the institutional pressures being exerted?

Control refers to the mechanisms/method through which rules are enforced, the means by which pressures are exerted on organisations. In the literature two distinct processes are identified: legal coercion and voluntary diffusion (DiMaggio, 1983; Oliver, 1991; Pfeffer 1978; Scott, 1987).

Coercion: Regulatory agencies

If there is a high level of enforcement, vigilance and sanctions for non-compliance, corporations are less likely to resist the pressures.

Ethical investment does not directly involve law or governmental mandate. However some of the issues it deals with such as child labour, human rights, working hours, or marketing practices are subject to conventions and agreements.

Moreover governments and inter-governmental bodies have enacted policies or published recommendations related to corporate responsibility. It is the case for example in the Netherlands with the White Paper published in 2001. This document presents the approach of the Dutch Government on CSR, which is intented to be translated into policies.

Diffusion: Imitation/Competitors & Societal support

Institutional pressures and expectations may occur not only through legal coercion but also by means of voluntary diffusion (Oliver, 1991). Oliver states that the extent to which an institutional expectation or practice has already diffused or spread voluntarily through an organisational field tends to predict the likelihood of conformity to institutional expectations. The more broadly diffused an institutional expectation or practice, the higher the likelihood that organisations will conform to these expectations. The less widespread a set of values, practices, or expectations, the higher the likelihood that organisations will resist them. (Oliver, 1991).

Two main elements are related to the diffusion of ethical investment criteria:

- Imitation/Competitors: According to Scott, diffusion can be observed within organisations that are similar to the imitating organisation or those in close proximity to it (Scott & Christensen, 1995). In every sector there are early adopters and late adopters (Rickards, 1985; Rogers, 1995). Early adopters provide an example for other organisations to imitate (Galaskiewicz & Wasseman, 1989). Several studies have analysed the diffusion process (Fligstein, 1985; Knobe, 1982; Tolbert & Zucker, 1983). They confirm DiMaggio and Powell's mimetic view of organisational conformity, meaning that organisations may model themselves on other successful organisations (DiMaggio et al., 1983). Ethical investment compares corporations and makes clear who is the best sustainable company. It stimulates competition among corporations and may stimulate the mechanism of imitation: In order to get a good screening, companies may imitate competitors that have been nominated as the best of their sector.

- Societal support: Oliver argues that when institutional rules or norms are broadly diffused and supported, organisations are expected to acquiesce to these pressures because their social validity is largely unquestioned (Oliver, 1991). These rules and norms also tend to become taken-for-granted understandings of what constitutes legitimate or rational behaviour. Conformity becomes the strategy because it does not occur to them to do otherwise. On the contrary when the diffusion of norms and practices in an institutional environment is low, organisations are less likely to conform. Ethical criteria, as part of CSR, may be perceived as reflecting societal concerns. Moreover ethical investment involves the consultation of corporations' stakeholders such as trade unions and NGOs. It not only entails spreading or sharing some norms/criteria but also getting the support of societal groups. This support enhances the legitimacy of ethical investment.

  Moreover, as has just been said above, some of the criteria for ethical investment are based on widespread conventions and agreements, such as the ILO conventions, which makes the diffusion of ethical investment norms easier.

Context: What is the environmental context within which institutional pressures are being exerted?

The environmental context within which institutional pressures are exerted is an influential factor in corporations' responses. Oliver distinguishes two main dimensions of the context: environmental uncertainty and interconnectedness. Uncertainty refers to what is unpredictable, undecided, variable, and changeable. That means that future states cannot be anticipated and predicted. The level of interconnectedness within the environment relates to the density of inter-organisational relations among occupants of an organisational field (Oliver, 1991). Through these connections, organisations are exposed to and socialised to accept institutional norms and expectations (Cartwright, 1998).

Uncertainty: Ethical criteria

Multiplicity may be a source of uncertainty (Oliver, 1991). Organisational decision-makers have a strong preference for certainty, stability, and predictability (Oliver, 1991). In an uncertain and unpredictable environment, corporations may be more inclined to follow institutional pressures and to imitate one another (DiMaggio et al., 1983; Galaskiewicz et al., 1989). Uncertainty may also be a reason for avoiding or defying pressures (Oliver, 1991).

Ethical investment has evolved in relation to three concepts: ethics, sustainable development and CSR. Although CSR may seem to be clearer, all three concepts are sources of uncertainties for corporations. Interpretation, understanding and translation of the concepts vary greatly between stakeholders and individuals.

Moreover criteria used for ethical investment are not standardised. They may vary from fund to fund and may give rise to divergent interpretations.

The criteria of ethical investment deal with issues that are evolving and usually very sensitive. That is the case for example with GMOs, about which scientific knowledge is developing, but it is more generally the case with all issues related to corporate behaviour which involve the relationship between consumer/society and the company.

Interconnectedness: Networks

Interconnectedness facilitates the voluntary diffusion of norms, values and shared information (Cartwright, 1998; Oliver, 1991). Interconnected environments provide channels through which institutional norms can be diffused resulting in a higher consensus regarding norms. Such a consensus in turn increases the strength of institutional norms and their potential influence on organisational responses (DiMaggio et al., 1983; Oliver, 1991). Therefore a high degree of interconnectness facilitates acquiescence to institutional pressures (DiMaggio et al., 1983; Meyer & Rowan, 1977; Oliver, 1991). On the contrary environments that are fragmented or purely competitive hinder the spread of institutional consensus and conformity (Oliver, 1991) providing reasons to corporations to defy or manipulate institutional pressures.

Ethical investment has created new networks such as ethical investment organisations – EIRIS, VBDO, and others – and has brought new actors into the sphere of CSR/sustainable development, in particular financial institutions. Is ethical investment perceived by corporations as stimulating contact between organisations? Do corporations have more contact with their stakeholders because of ethical investment?

Cause	*Why is the company being pressured?*	
Social legitimacy	- Strategic utility - Legitimacy rationality - Organisational interest	Reputation
Economic fitness	- Economic gain - Economic accountability - Economic rationalisation	Profitability Share price
Constituents	*Who is exerting institutional pressure on the company?*	
Multiplicity (From constituents)	- Conflicting pressures, conflicting expectations - Incompatible and competing demands - Conflicting interest groups	Diversity of demands and requirements
Dependency (Organisation's dependence on the constituents)	- Constituent's in/ability to control the allocation or availability of some critical organisation resource - The organisation's willingness or ability to find alternative resources or resource suppliers.	Capital providers Voting rights
Content	*To what norms or requirements?*	
Consistency (Constituents' demands/organisation's goals)	- Compatibility with internal goals - Validity or legitimacy of institutional expectations.	Compatibility
Constraint	- Loss of decision-making discretion that the pressures impose on the organisation - Constraint on substantive organisational decisions	Screening process Shareholder activism
Control	*How or by what?*	
Coercion (Legal coercion)	- Law, government mandate - Consequences of non compliance: punitive, enforcement system - Regulatory agencies - Mechanisms for enforcing compliance	Regulatory agencies
Diffusion (Voluntary diffusion)	- Spreading values, practices or expectations - Imitation and contagion of legitimacy - Organisation's awareness of values and practices - Organisation's scepticism. - Competition within the field	Imitation/Competitors Societal support
Context	*What is the environmental context?*	
Uncertainty	- Environmental certainty and predictability - Knowledge of the values and norms	Ethical criteria
Interconnectedness	- Connectedness or fragmentation of the environment	Networks

Annex 12- Strategic responses compared to Oliver's predicted strategies

The table represents the institutional antecedents and predicted strategic responses as described in Oliver's (1991). For each of the cases, before 1999 and after 2000, the identified factors have been highlighted in gray and the dominant strategy are circled in a black frame, except for C1 & C4 because, there is not a significant difference between the strategies however Acquiescence gets one more factor. The strategy identify according to the data is indicated with an arrow.

Before 1999	Strategic responses				
Factor	Acquiesce	Compromise	Avoid	Defy	Manipulate
Cause					
Legitimacy	High	Low	Low	Low	Low
Efficiency	High	Low	Low	Low	Low
Constituents					
Multiplicity	Low	High	High	High	High
Dependence	High	High	Moderate	Low	Low
Content					
Consistency	High	Moderate	Moderate	Low	Low
Constraint	Low	Moderate	High	High	High
Control					
Coercion	High	Moderate	Moderate	Low	Low
Diffusion	High	High	Moderate	Low	Low
Context					
Uncertainty	High	High	High	Low	Low
Interconnectedness	High	High	Moderate	Low	Low

Uncertainty is High for part of the companies (C2, C3, C5, C6) and Low for others (C1 and C4); *Interconnectedness* could not be evaluated; None is considered as Low

After 2000 – C1 & C4	Strategic responses				
Predictive Factor	Acquiesce	Compromise	Avoid	Defy	Manipulate
Cause					
Legitimacy	High	Low	Low	Low	Low
Efficiency	High	Low	Low	Low	Low
Constituents					
Multiplicity	Low	High	High	High	High
Dependence	High	High	Moderate	Low	Low
Content					
Consistency	High	Moderate	Moderate	Low	Low
Constraint	Low	Moderate	High	High	High
Control					
Coercion	High	Moderate	Moderate	Low	Low
Diffusion	High	High	Moderate	Low	Low
Context					
Uncertainty	High	High	High	Low	Low
Interconnectedness	High	High	Moderate	Low	Low

Legitimacy: not taken into account because it was considered as Moderate

After 2000 – C2 & C3	Strategic responses				
Predictive Factor	Acquiesce	Compromise	Avoid	Defy	Manipulate
Cause					
Legitimacy	High	Low	Low	Low	Low
Efficiency	High	Low	Low	Low	Low
Constituents					
Multiplicity	Low	High	High	High	High
Dependence	High	High	Moderate	Low	Low
Content					
Consistency	High	Moderate	Moderate	Low	Low
Constraint	Low	Moderate	High	High	High
Control					
Coercion	High	Moderate	Moderate	Low	Low
Diffusion	High	High	Moderate	Low	Low
Context					
Uncertainty	High	High	High	Low	Low
Interconnectedness	High	High	Moderate	Low	Low

After 2000 – C5 & C6	Strategic responses				
Predictive Factor	Acquiesce	Compromise	Avoid	Defy	Manipulate
Cause					
Legitimacy	High	Low	Low	Low	Low
Efficiency	High	Low	Low	Low	Low
Constituents					
Multiplicity	Low	High	High	High	High
Dependence	High	High	Moderate	Low	Low
Content					
Consistency	High	Moderate	Moderate	Low	Low
Constraint	Low	Moderate	High	High	High
Control					
Coercion	High	Moderate	Moderate	Low	Low
Diffusion	High	High	Moderate	Low	Low
Context					
Uncertainty	High	High	High	Low	Low
Interconnectedness	High	High	Moderate	Low	Low

Summary

The dissertation examines the development of ethical investment in the Netherlands during the period 1990-2002. Drawing on institutional theory, it investigates the emergence and construction of the ethical investment field, paying particular attention to corporations' responses to this growing phenomenon.

Ethical investment, also called socially responsible investment, is a form of stock investment based on social, environmental and financial screenings. Over the years, the activity has gone through a number of changes. Its origins go back to the 18th century in the US. For hundreds of years, ethical investment was related to religious groups who actively chose to avoid investing in certain kinds of enterprises, the so-called "sin" stocks – alcohol, tobacco, weapons and gambling. In the 1970s, a number of social and environmental movements showed interest in ethical investment and used it as a political tool for lobbying corporations involved, for example, in South Africa or in the Vietnam War. In the mid-1980s ethical investment started to develop in Europe; within a decade it had shifted from being an activist movement to a mainstream financial product. The dissertation focuses on this latest period of transformation and addresses two main research questions:

1) *What are the nature and characteristics of the institutionalisation process of the field of ethical investment?*
2) *How do corporations respond to the pressures exerted by ethical investment?*

The theoretical perspective is based on new institutional theory. This perspective emphasises the relationship between organisations and their environments and argues that institutionalisation places constraints on organisational rationality. Ethical investment is approached in terms of organisational field. Fields do not emerge fully formed; they evolve over time through processes and mechanisms of institutionalisation.

The empirical data are organised into one in-depth case study and six smaller case studies. The in-depth case study is based on a five-year participation-observation in a Dutch rating organisation, Triodos Research. It is completed by the analysis of nine other Dutch ethical investment funds, interviews with other key actors in the field, and the screening of various publications related to ethical investment (articles, brochures, reports, etc). The in-depth case study provides rich insights into the process of ethical investment, the relationships between the actors (network analysis), and the development

of the field and activity over time. Corporations' responses to ethical investment are investigated through the analysis of the six smaller case studies. They consist of six stock-quoted Dutch companies from three different sectors of activity, namely oil & chemicals, food and media. Data on the cases have been gathered through interviews with managers, annual reports, websites, and newspaper cuttings.

These empirical data focus on several aspects. Firstly, how actors of the field perceive and describe ethical investment, both the broader historical context and the more immediate personal one. Secondly, what stimulated their involvement in the field. Thirdly, how do actors see their role within the field. Fourthly, how do they talk about the activity of ethical investment. Fifthly, what do they do and with whom do they have contacts. And finally, what do they say others do. The data was analysed in a first stage by being classified into categories and themes, and then by employing data displays such as thematic lists, designed to help organise and interpret the data (Miles & Huberman, 1984). A theoretical framework developed in Chapter 3 guided the process of data reduction.

The results show that ethical investment is a maturing field still under a process of institutionalisation. There is a public discourse about it and there are organisations that are concerned with activities related to this concept. During the institutionalisation process, ethical investment has shifted from being an activist-related activity to a commercial project. In the Dutch case, financial institutions and rating organisations have played a major role in initiating and professionalising the activity. The data shows that at the end of the 1990s ethical investment was captured by mainstream financial institutions. In this new activity they perceived some strategic interests: it provided a means to reinforce their sustainability approach as well as creating new market opportunities. The capture initiated a number of changes within the field and produced a new institutional context, which created new types of pressures on corporations. In response, corporations adopted new approaches regarding ethical investment and strategically used some elements of ethical investment, namely the sustainability indices. The indices have been transformed into an external Corporate Social Responsibility (CSR) certification in order to enhance their own legitimacy towards their stakeholders. Both the capture by mainstream financial institutions and the appropriation of the sustainability indices by corporations turned ethical investment into a viable commercial project and transformed the activity into an element of the broader CSR field.

The thesis attempts to frame and conceptualise the institutional process of the ethical investment field and understand its impact on firms' behaviour. An important part of the research has been to understand the dynamic issues within the field. The major theoretical contribution to institutional theory is the expansion of its empirical base. It does so in three respects. Firstly it investigates the institutionalisation of a 'commercial project', an area that has received little attention from institutional theorists. Secondly it explores an institutional field which is ‘in formation’, while studies have mostly focused on mature fields. And thirdly it focuses on the structuration process by adopting a ‘mechanism approach’ whereas other research studies tend to concentrate on field operations and structural determinants. This last element underlined the complexity of field formation, which is created through actions of, and interactions between, actors and involve a portfolio of mechanisms that take place in combination and interrelation with each other.

The dissertation also contributes to literature on ethical investment and brings new insights into the development of this phenomenon. The study of the Dutch ethical investment community raises a number of questions related to the role of ethical investment in stimulating sustainable development. Firstly it questions the positive impact on shareholders’ awareness regarding social and environmental issues, given the process of disengagement of shareholders during the institutionalisation phase. Secondly it points to the limited impact of ethical investment as regards the promotion and dissemination of the concept of sustainable development within the financial sector. Thirdly, it shows how the debate around sustainable development risks being paralysed by the standardisation of sustainability criteria. Fourthly it recognises the development and improvement of the selection process but notes that screenings are for a significant part based on information provided by corporations themselves, which may create a dependency problem. It underlines new relationships between actors of the field due to the involvement of new actors. And finally, it points at the problem of decoupling. The ethical investment community puts pressure on companies to disclose an increasing amount of information related to sustainable development. However are these the right types of pressure to stimulate change towards sustainable development? One of the risks is to encourage companies to adopt buffering strategies by decoupling or detaching its technical activities from external scrutiny.

Samenvatting

Het proefschrift onderzoekt de ontwikkeling van ethisch beleggen in Nederland gedurende de periode 1990-2002. Vanuit het perspectief van de institutionele theorie wordt de opkomst en ontwikkeling van ethisch beleggen bestudeerd. Daarbij wordt in het bijzonder aandacht geschonken aan de reacties vanuit het bedrijfsleven op dit groeiende terrein.

Ethisch beleggen, ook wel sociaal verantwoord investeren genoemd, is een vorm van beleggen in aandelen gebaseerd op een sociale, milieukundige en financiële screening. In de loop der jaren heeft zich op dit terrein een aantal veranderingen voorgedaan. De oorsprong ervan ligt in de Verenigde Staten van de 18e eeuw. Gedurende de honderd jaar die daarop volgde was het ethisch investeren gerelateerd aan religieuze groepen, die bewust hadden gekozen voor het vermijden van beleggen in bepaalde soorten ondernemingen; de zo genoemde ‘zondige’ aandelen - alcohol, tabak, wapens en gokken. In de jaren zeventig van de 20e eeuw toonde een aantal maatschappelijke organisaties op sociaal en milieugebied interesse voor ethisch beleggen en gebruikte het als een politiek instrument om het bedrijfsleven dat betrokken was bij het apartheidregiem in Zuid-Afrika of de oorlog in Vietnam, onder druk te zetten.

Midden jaren tachtig van de vorige eeuw begon het ethisch beleggen zich in Europa te ontwikkelen. Binnen tien jaar veranderde het van een activistische beweging in een mainstream financieel product. Dit proefschrift richt zich met name op deze laatste periode van verandering en stelt de volgende twee hoofdonderzoeksvragen centraal:

3) *Wat zijn de aard en de kenmerken van het institutionaliseringproces van het gebied van ethisch beleggen?*

4) *Hoe reageert het bedrijfsleven op de druk die door ethisch beleggen op haar wordt uitgeoefend?*

Het theoretisch perspectief van waaruit deze vragen worden belicht, is dat van de nieuwe institutionele theorievorming. Dit perspectief benadrukt de relatie tussen organisaties en hun omgeving en beargumenteert dat institutionalisering de organisatorische rationaliteit beperkt. Ethisch beleggen wordt benaderd als een organisatorisch terrein. Zo’n terrein ontstaat niet ineens, maar ontwikkelt zich in de loop der tijd door processen en mechanismen van institutionalisering.

De empirische gegevens zijn verzameld op grond van zeven casestudies, waarvan er één diepgaander is. Deze laatste casestudie is gebaseerd op participatieve observatie gedurende een periode van vijf jaar binnen een Nederlandse rating organisatie, Triodos Research. Saarnaast zijn er een analyse van negen andere Nederlandse ethische beleggingsfondsen, interviews met andere sleutelactoren uit het veld, en het doorlichten van verschillende publicaties gerelateerd aan ethisch beleggen (artikelen, brochures, rapporten, etc.). De diepgaande casestudie geeft talrijke inzichten in het proces van ethisch beleggen, de relatie tussen de actoren (netwerk analyse), alsmede de ontwikkeling van het veld en de activiteiten door de tijd heen. De reacties van het bedrijfsleven op ethisch beleggen zijn onderzocht door het analyseren van zes Nederlandse beursgenoteerde bedrijven uit drie verschillende sectoren, namelijk olie & chemie, voedsel en media.

Onderzoeksdata hiervoor is verzameld middels interviews met managers, jaarverslagen, websites, krantenberichten.

Dit empirisch materiaal richt zich op diverse vragen:

(5) Hoe percipiëren en beschrijven actoren in het veld ethisch beleggen, zowel in een bredere historische context als in een meer directe context?
(6) Wat stimuleerde hun betrokkenheid op dit gebied?
(7) Hoe zien actoren hun rol op dit terrein?
(8) Hoe spreekt men over de activiteit van ethisch beleggen?
(9) Wat doet men en met wie heeft men contact?
(10) Wat zegt men dat anderen doen?

In eerste instantie zijn de onderzoeksresultaten geanalyseerd door ze te groeperen in categorieën en thema's. Vervolgens is de data verwerkt met behulp van onder andere thematische lijsten, welke dienden als hulpmiddel bij het organiseren en het interpreteren van de resultaten (Miles & Huberman, 1984). Een theoretisch raamwerk, ontwikkeld in hoofdstuk 3, was behulpzaam bij het proces van data reductie.

De resultaten tonen aan dat ethische beleggen een zich ontwikkelende sector is die nog altijd in een proces van institutionalisering verkeert. Hierover is een publieke discussie gaande, waar diverse organisaties bij betrokken zijn. Tijdens het institutionaliseringproces is ethisch beleggen verschoven van een activiteit die verbonden werd met activisme naar een commercieel product. In het geval van Nederland speelden financiële instellingen en 'rating' organisaties een belangrijke rol in het initiëren en professionaliseren van ethisch beleggen. De data laten zien dat aan het eind van de jaren negentig, ethisch beleggen was overgenomen door reguliere financiële instellingen. Zij zagen strategische voordelen in deze nieuwe activiteit: het leverde een middel om hun duurzaamheidsaanpak te versterken alsook om nieuwe marktkansen te creëren. Deze overname initieerde een aantal veranderingen binnen de sector en bracht een nieuwe institutionele context met zich mee, die nieuwe mogelijkheden creëerde om druk uit te oefenen op het bedrijfsleven.

In reactie daarop, implementeerde het bedrijfsleven nieuwe strategieën inzake ethische beleggen en maakte het strategisch gebruik van enkele elementen van ethisch beleggen, namelijk van de duurzaamheidsindicatoren. De indicatoren zijn vertaald in een systeem van externe certificering voor Maatschappelijk Verantwoord Ondernemen, met als doel om hun eigen legitimiteit naar hun stakeholders te vergroten. Zowel de overname door mainstream financiële instellingen als de toepassing van duurzaamheidsindicatoren door het bedrijfsleven maakten van ethisch beleggen een levensvatbaar commercieel project en transformeerde de activiteit tot een belangrijk element van Maatschappelijk Verantwoord Ondernemen.

Dit proefschrift tracht het institutionele proces op het terrein van ethisch beleggen in een kader te plaatsen en te conceptualiseren en het effect ervan op het gedrag van bedrijven te begrijpen. Een belangrijk deel van het onderzoek was om de dynamische ontwikkeling binnen dit terrein te begrijpen. De grootste theoretische bijdrage aan de institutionele theorie is de uitbreiding van de empirische basis van de institutionele theorie, en wel in drie opzichten: Ten eerste bestudeert het de institutionalisering van een ‘commercieel project’, een gebied dat weinig aandacht krijgt van institutionele theoretici. Ten tweede onderzoekt het een institutioneel gebied, dat ‘in vorming’ is, terwijl de meeste studies zich richten op volgroeide sectoren. En ten derde, richt het zijn aandacht op het proces van structuratie door het implementeren van een ‘mechanisme benadering’ terwijl onderzoekers geneigd zijn zich te richten op veldwerk en structurele determinanten.

Dit laatste element vestigt de aandacht op de complexiteit van de formatie van een bepaald gebied, dat gecreëerd wordt door acties van en wisselwerking tussen actoren, en betrekking heeft op een portfolio van mechanismen die plaatsvinden in combinatie en interrelatie met elkaar.

Het proefschrift draagt evenzo bij aan de literatuur over ethisch beleggen en biedt nieuwe inzichten in de ontwikkeling van dit fenomeen. Deze studie van de Nederlandse gemeenschap van ethische beleggers roept een aantal vragen op over de rol van ethische beleggen in het stimuleren van duurzame ontwikkeling. Ten eerste trekt de studie het positieve effect in twijfel op het bewustzijn van aandeelhouders ten aanzien van sociale en milieukwesties, omdat zij in het institutionaliseringsproces niet actief betrokken waren. Ten tweede betreurt de studie het beperkte effect van ethisch beleggen op het stimuleren en verspreiden van het concept van duurzame ontwikkeling binnen de financiële sector. Ten derde, brengt de studie het risico naar voren dat discussies rond duurzame ontwikkeling worden verlamd door het standaardiseren van duurzaamheidcriteria. Ten vierde erkent de studie de ontwikkeling en verbetering van het selectieproces maar constateert dat de screenings voor een belangrijk deel gebaseerd zijn op informatie verschaft door de bedrijven zelf. Dit creëert weer een afhankelijkheidspositie. De studie onderstreept nieuwe relaties tussen actoren in het veld als gevolg van de betrokkenheid van nieuwe actoren. En tenslotte richt de studie zich op het probleem van ontkoppeling. De ethische beleggingsgemeenschap zet de bedrijven onder druk om een toenemende hoeveelheid informatie over duurzaam ondernemen openbaar te maken. De vraag is echter of dit de juiste manier is om verandering in de richting van duurzame ontwikkeling te stimuleren. Een van de risico's is om bedrijven aan te moedigen gebruik te maken van buffering-strategieën, door ontkoppeling of scheiding van hun technische activiteiten van kritisch onderzoek van derden.

Résumé

La recherche présentée dans la thèse s'intéresse au développement de l'investissement éthique aux Pays-Bas entre 1990 et 2002. Basée sur la théorie institutionnelle, l'étude examine l'émergence et la construction du champ institutionnel de l'investissement éthique, avec une attention particulière sur les réponses des entreprises à ce phénomène croissant.

L'investissement éthique, ou investissement socialement responsable, est une forme de placement sous forme d'actions ou d'obligations sur la base de critères financiers, sociaux et environnementaux. Au cours des années, l'activité s'est développée et a subi de nombreux changements. Les origines de l'investissement éthique remontent au 18^{ième} siècle. Les premiers fonds éthiques sont apparus aux Etats-Unis, sous la pression des congrégations religieuses qui refusaient d'investir dans des « actions du péché » (sin stocks). Les entreprises actives dans l'alcool, le tabac, le jeu, l'armement et la pornographie se voyaient donc exclues. A partir des années 70, le concept d'investissement éthique entre dans une nouvelle logique. Un certain nombre de groupes sociaux et environnementaux y voient un instrument de boycott pour afficher leur opposition. Il devient donc un outil à finalité politique. Au cours des années 80, l'investissement éthique commence à se développer en Europe et prend une forme nouvelle, celle d'un produit financier courant. La dissertation se concentre sur cette dernière période de transformation et aborde deux questions de recherche principales :

1. *Quelle est la nature et quelles sont les caractéristiques du processus d'institutionnalisation du champ de l'investissement éthique ?*
2. *Comment répondent les entreprises aux pressions exercées par l'investissement éthique ?*

Le cadre théorique de la recherche est basé sur la théorie néo-institutionnelle. Cette perspective souligne l'importance des relations entre les organisations et leur environnement. Elle soutient également que dans une certaine mesure les institutions exercent des contraintes sur la rationalité des organisations. Cette recherche aborde l'investissement éthique sous l'angle du champ organisationnel, c'est–à-dire un ensemble d'organisations opérant dans le même domaine, définies par la similarité de leurs services, produits ou fonctions, et ayant pour but de mener à bien un projet commun (DiMaggio & Powell, 1983 ; Scott, 2001). Les champs organisationnels se forment à travers des processus et mécanismes d'institutionnalisation. Avec le temps et par l'action,

les règles qui définissent le champ deviennent institutionnalisées et un langage commun ainsi qu'une structure sociale se développent (Meyer & Rowan, 1977b).

Les données empiriques sont organisées autour d'une étude approfondie et de six études de cas. L'étude approfondie s'appuie sur une participation-observation de cinq années dans une agence néerlandaise de rating sociale et environnementale (Triodos Research). L'étude est complétée par l'analyse de neuf autres fonds néerlandais d'investissement éthique, des entretiens avec plusieurs acteurs-clé du champ étudié, et de l'analyse de diverses publications concernant l'investissement éthique (articles, brochures, rapports, etc.). L'étude approfondie donne un riche aperçu du processus d'investissement éthique, des relations entre les acteurs (analyse de réseaux), et du développement du champ institutionnel et de l'activité au cours des dix dernières années. Afin d'étudier les réponses des entreprises à l'investissement éthique, six firmes néerlandaises cotées en bourse actives dans trois secteurs d'activité différents --pétrole et chimie, nourriture, média-- sont analysées. Une série d'entretiens avec des managers, l'analyse des informations fournies par les entreprises de 1996 à 2002 (rapports, brochures, sites internet, etc.) et des articles de journaux on permis de recueillir les données empiriques pour les six études de cas.

Les donnés se focalisent sur plusieurs aspects. Premièrement: comment les acteurs du champ organisationnel perçoivent et décrivent l'investissement éthique tant dans son contexte historique au sens large que dans sa proximité plus immédiate et personnelle. Deuxièmement: quelles sont les motifs qui ont stimulé leur engagement dans ce champ d'activité. Troisièmement: comment envisagent-ils leur rôle dans le champ organisationnel. Quatrièmement: comment parlent-ils de l'investissement éthique (analyse du discours). Cinquièmement: quel est leur rôle dans le champ et avec qui ont-ils des contacts. Et sixièmement: comment perçoivent-ils les autres acteurs du secteur. Les donnés empiriques ont été analysées suivant la méthode de Miles & Huberman (1984). Les données ont été, dans un premier temps, organisées en plusieurs catégories puis déployées par thème afin de les interpréter. La réduction des données a suivi un cadre théorique défini grâce à la perspective institutionnelle.

Les résultats de la recherche montrent que l'investissement éthique est un champ organisationnel en cours d'institutionnalisation, qui n'est pas encore mature. On peut y déceler un discours public, ainsi que des organisations et des personnes concernées par cette activité. Au cours du processus d'institutionnalisation, l'investissement éthique a basculé d'un instrument activiste à un projet commercial. Dans le cas hollandais, les institutions financières et les agences de rating ont joué un rôle majeur dans l'initialisation et la professionnalisation de l'activité. Les données montrent qu'à la fin des années 90, l'investissement éthique a été capturé par les institutions financières dominantes, qui y ont vu un intérêt stratégique: renforcer leur image de banque durable et créer de nouvelles opportunités de marché. Cette capture a eu pour conséquences d'initier plusieurs changements au sein du champ organisationnel et de produire un nouveau contexte institutionnel, créant un autre type de pressions sur les entreprises. En réponse à ce changement, les entreprises ont adopté de nouvelles stratégies vis-à-vis de l'investissement éthique et ont utilisé stratégiquement certains éléments de cette activité, plus exactement les indices boursiers: Dow Jones Sustainability et FTSE4Good. Ces indices boursiers ont été transformés en schéma de certification externe de la responsabilité sociale des entreprises. Les entreprises listées sur les indices ont ainsi consolidé leur légitimité sociale. La capture par les institutions financières et la récupération des indices boursiers ont tous deux contribué à la transformation de l'investissement éthique en un projet commercial viable et à son assimilation comme élément de la responsabilité sociale des entreprises.

La recherche tente de fournir un cadre théorique et de conceptualiser le processus d'institutionnalisation du champ de l'investissement éthique ainsi que de comprendre l'effet du développement de ce champ organisationnel sur le comportement social et environnemental des entreprises cotées en bourse. Une majeure partie de la recherche explore les dynamiques au sein du champ organisationnel. La principale contribution théorique concerne l'expansion de la base empirique utilisée dans le cadre de la théorie institutionnelle. Ainsi elle examine le processus d'institutionnalisation d'un 'projet commercial', ce qui a jusqu'à présent reçu très peu d'attention. Elle explore un champ institutionnel 'en cours de formation', alors que la plupart des recherches se concentrent sur des champs matures, c'est–à-dire déjà formés et institutionnalisés. Et finalement la recherche s'intéresse aux 'mécanismes' du processus de structuration, alors que les recherches en théorie institutionnelle ont tendance à se concentrer sur les déterminants structuraux et le fonctionnement des champs.

La recherche contribue également au corps de littérature sur l'investissement éthique et apporte un nouveau regard sur le développement de ce phénomène. Elle soulève un certain nombre de questions concernant la capacité de l'investissement éthique à contribuer au développement durable. Tout d'abord le processus d'institutionnalisation a créé un certain désengagement des actionnaires ce qui restreint la capacité de l'investissement éthique à sensibiliser les actionnaires aux problèmes sociaux et environnementaux. Deuxièmement, le rôle de l'investissement éthique en tant que promoteur et diffuseur du concept de développement durable au sein du secteur financier est limité. Troisièmement, le processus d'institutionnalisation a entraîné la standardisation des critères pour l'investissement éthique. Un des risques de cette standardisation est de paralyser le débat sur le développement durable au lieu de le stimuler. Quatrièmement, les systèmes de sélection et de rating pour l'investissement éthique se sont développés et améliorés au cours de ces dernières années. Cependant la part d'information fournie par les entreprises elles-mêmes pour l'évaluation s'est notablement accrue. Les agences de rating et les entreprises ont formé un nouveau type de relation qui, dans le futur, peut créer un problème de dépendance et ainsi réduire la marge de manœuvre des agences de rating. Et enfin, les résultats de la recherche indiquent un risque de découplement. L'une des principales pressions exercées par la communauté de l'investissement éthique sur les entreprises concerne la divulgation d'informations: une quantité de plus en plus importante d'information est exigée afin d'obtenir une notation respectable. Bien qu'en elle-même une telle demande puisse être perçue comme positive, car elle conduit à une plus grande transparence, on peut se demander si elle contribue positivement au changement vers un développement durable. En effet, afin de se protéger de telles pressions les entreprises ont tendance à adopter des stratégies dites de 'buffering' (tampon), en d'autres termes elles isolent et protègent leurs activités techniques de toute surveillance externe.

Curriculum Vitae

Céline Louche was born in Lyon, France. She studied Management Sciences at the university of Aix-Marseille (France), where in 1996 she obtained a 'Diplôme d'Etudes Approfondies' (DEA) --a post-Master's degree-- in Management Sciences. Her Master's thesis dealt with the implementation of environmental strategies among French corporations. During this research period, Céline came into contact for the first time with the concept of sustainable development, which was to play a decisive role in providing direction to her future studies. In 1997 she decided to specialise in Environmental Sciences and enrolled into the European Association for Environmental Management Education, where she obtained a European Master in Environmental Management with honours (Italy).

In 1999 she started her PhD dissertation on the institutionalisation of ethical investment with the Erasmus Center for Sustainable Development at the Erasmus University (The Netherlands). In parallel to her Ph.D. research project, she worked as a Sustainability Analyst for socially responsible investment in the research department of the Dutch bank Triodos. This department became an independent rating organisation in 2000 called Dutch Sustainability Research. During her Ph.D. project she participated in programmes on Modelling and Simulation in Social Sciences and during the autumn of 2003, she was invited to Stanford University as visiting scholar.

Since April 2004 Céline has been working as a researcher at Vlerick Gent Leuven Management School in Ghent (Belgium).