Achieving Social Responsibility in Investment

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Abstract

The descriptive studies on socially responsible investment have by and large ignored the question of how social responsibility of investors is determined. This paper sets a theoretical framework for studying how social responsibility of investors is determined and how responsibility is achieved in investment management. It is argued that various institutional frameworks condition investment processes significantly and make social responsibility of investors difficult to broaden despite influential aspirational projects like UNPRI.

Keywords: consistency, institutional theory, investments, social responsibility

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INTRODUCTION: THE MISSING RESEARCH AGENDA OF SOCIAL RESPONSIBILITY IN INVESTMENT

The definition of socially responsible investment (SRI) has been a major academic debate for over a decade. The definitions have been primarily descriptive. For example, being one of the influential pioneers in the field, Sparkes (2002) defines it as 'the construction of equity portfolios whose investment objectives combine social, environmental and financial goals' and when 'practiced by institutional investors this means attempting to obtain a return on invested capital approaching that of the overall stock market'. This definition describes some typical forms of and commitments in SRI, but it also includes too many presumptions. Any comprehensive empirical research studying where the idea of social responsibility (SR) can be found relevant would come up with a conclusion less limited to certain practices (e.g. bond and real estate investments), to certain investor types (e.g. mutual funds and microfinanciers) and to motives (e.g. charitable giving or aiming at highest possible profits) in the incredible diversity within modern finance. In order to explain what kinds of actors, practices, relationships and all kinds of relevant issues actually belong to the domain of SRI we need an *analytical* theory of SRI in contrast to descriptive theories.

Langley (2008a) has argued that for the 'advocates, activists, and practitioners of SRI, all investments -- are potentially "politically incorrect", and should be subjected to moral and ethical considerations' and that the 'seemingly realistic and rational pursuit of the risk/return of investment by the individual in the name of their material well-being, security, and freedom – that is, the very calculative performances of everyday investment -- – are challenged by SRI as narrow, short-sighted, and socially and environmentally damaging' (p.

114). This analytical definition assumes that socially responsible investment behavior is different from other activities by including some specific normative considerations, i.e. to not damage the community and environment, and manifesting dissent towards prevailing mainstream investment practices. Yet, the definition lacks the essential ingredient of social explanation as it tells us little why these norms are present, where are they coming from, and why exactly do they lead some investors to adopt non-mainstream activities and some not. Even more importantly, however, it doesn't tell us why exactly are these issues put under the title of *social responsibility* (SR).

We argue it makes little sense to use the concept of socially responsible investment without studying what the social responsibility of an investor is and what exactly does it implies for the investments. This said, the SRI studies have by and large ignored the important analytical question of what the SR of investors is like, how it is determined, and how it affects investment activities. This lack of attention has led to a major theoretical underdevelopment in this area of study. The purpose of this paper is to present one theoretical framework addressing these crucial issues. The goal here is not to present a thorough empirical study on SR of different kinds of investors in different environments or to evaluate their actions but only to provide theoretical and methodological tools for such enquiries in further studies.

In our task, we follow two important calls for methodological considerations in analytical theories of SR. First, we follow Campbell (2007) who argues that any fruitful theory of SR must be able to explain why actors exactly act in socially responsible ways. In other words, it makes no sense to define what the SR of actor is unless it has no analytical value in explaining actions. This implies that any relevant theory of SR must be consistently rooted to

theory – or, that the 'social' of SR needs to be thought in terms of social theory instead of some general notion of society or moral consideration. Secondly, we follow Haigh and Jones (2007) who have called for improved methodological and theoretical consistency in SR studies that have been by and large dominated by timidity to address the role of essential structures of modern economies in defining responsible behavior. As result, there has been a major gap between theories and practices of SR that has undercut the relevance of SR theories. In order to improve theoretical consistency, a theory of SR needs to address the possibility of heterogeneous organizational forms, of the taking of 'society first' and business 'second', and of recognizing researcher's own position in providing legitimacy to her object of study in empirical analysis.

To respond to these calls, we apply a theory of SR based on institutional social and agency theory, which we have discussed and developed in more detail elsewhere (Sorsa 2008), to the case of investors and financial investment. The next section of the paper is dedicated to presenting this framework. We argue this approach addresses the first one of the aforementioned calls well – after all, the main rationale for institutional social theory is to explain actions in social terms (Campbell 2004; Crouch 2005; Gronow 2008; Heiskala 2007; Hodgson 2006; see e.g. Scott 2008). In this approach, the basis for SR as a norm is in binding normative expectations. This makes Haigh and Jones's concerns a set of empirically observable issues: expectations may include various organisational forms, put either society or business 'first', and, indeed, be given by the researcher herself.

An institutional approach also helps to explain how expectations that may be present and acknowledged in some actions do not necessarily explain those or other actions. Indeed, there are investment behaviors that can become considered socially responsible in societies, but so

are there many kinds of organizational and societal constraints and conditions for these activities. We argue SR is something contingent that is *achieved* in management by generating investments that are accountable in effects. As Haigh and Jones suggest, any theoretical enquiry seeking relevance in practice always requires a nuanced, substantive and critical view on actions and structures specific to the domain studied. When we study investors, we cannot ignore the complex world of modern finance. We argue that the management of the relationship between expectations and the different 'impact opportunities' provided by different investment methods is limited but offers many avenues for generating responsible impacts. We discuss these issues in the third section of the paper.

Investments are not, of course, the only available actions for investors. For example, investors can use the acknowledged expectations in seeking legitimacy with purely symbolic manner in public communications (reporting, marketing, policy representation, websites etc.). As contemporary prominent SR theorists have noted, public communications play an essential role not only in achieving but also in defining SR in deliberation (Palazzo & Scherer 2006). Public communication both provides a basis for contestation and gives a representation that affects the ways people think about SR of investors. Although we recognize the importance of this argument in our institutional theory framework and consider it an essential question in empirical studies, we are here focused only in the more closely investment management related question of how investors can achieve SR consistently via investments, i.e. of how to assemble investment methods and binding expectations together without contradictions, not how responsible investments are presented in public communication.

In the fourth and last section of the paper we draw conclusions on how responsibilities and opportunities might be asserted together consistently, with a special focus on the United Nations Principles for Responsible Investment (UNPRI). The research question of this paper raises one very important question that we will address in the conclusions section of the paper: does and can the responsible investment (RI) community achieve SR any better than 'normal' investors? Indeed, if we study the SR of a given investor, will it even imply dissent towards the normative virtues of modern portfolio theory based, abstracted, professionalized, and more 'depoliticized' (De Goede 2004) forms of conventional finance? We argue that the opportunities provided by modern investments and limitations investors face both provide disincentives to take responsibility of broad social themes and cut the effectiveness of impacts of the dominant practices in the RI community. More effective impacts would require not only innovative approaches to investment but also major macro-level institutional change.

SOCIAL RESPONSIBILITY: AN INSTITUTIONAL APPROACH

Responsibility as an institutional form refers to those established and elastic sets of acknowledgeable norms that bind specific themes to a particular actor, and make it the responsible subject who is normatively evaluated (praised, despised etc.) for its actions in respect to these themes. The institution of responsible behavior is created by actions based on these forms, and it is actions that renew and change these acknowledgeable forms. Responsibility belongs to the domain of normative institutions. Regulative institutions – in institutional forms rules, laws, power systems, and standards that mandate and constrain actions – are included in the normative domain (Gronow 2008; Heiskala 2007), although they

include a specific basis of compliance and mechanism of power, expedition and coercion, in contrast to the general logics of social obligation of normative institutional forms (see Gronow 2008). Binding expectations affect actors because they believe it is the right thing to respond to them. Normative institutions arise from and operate in broader institutional frameworks (e.g. discursive and habitual), but it is the acknowledged expectations and responding actions that form the institutions we are interested in this paper.

This simple definition raises two questions: where can we find these responsibility norms and what makes these responsibilities 'social'. Moral philosophers answer the former question by saying that there are two sources for responsibility: an actor can take responsibility of or it can be held responsible for the consequences of its actions (Kutz 2000). In terms of institutional forms, the norm can be a value or an expectation, respectively. Influential moral philosophers like Strawson (2008) have highlighted the primacy of the latter aspect in social responsibilities. Matten and Moon (2008) answer the latter question by noting that SR refers to two different domains, the 'explicit' and the 'implicit' SR. The former is about responsibilities taken by businesses. What makes these responsibilities 'social' depends on how that discourse is used in various speech acts and domains of life, most importantly in organizations' public communication. The implicit responsibilities of an actor are those sets by the society, the responsibilities and duties set by different actors and structures of the society. Here, we need social theory to define 'social' (Matten and Moon opted for new institutional theory).

Given the criteria we presented in the introduction, these two answers lack one essential feature of institutional theory that current mainstream theorists (Campbell 2004, 2007; Crouch

2005; Crouch, Streeck, Whitley, & Campbell 2007; Streeck & Thelen 2005) strongly advocate: the question of how strongly institutional forms affect actions, or how *internalized* institutional forms are in action. Furthermore, we can recognize two other deficiencies. The first one is related to terminology of implicit and explicit. The problem is that organizations may have adopted some norms that are neither brought directly to the attention of the actor nor are explicitly presented in public communications under the title of SR or at all, but are nevertheless key institutions forming the organizational life. The second issue is the lack of mechanisms in defining the dynamics between explicit and implicit SR. Most importantly, it fails to address the possibility that the explicit SR affects the implicit one, which requires it accommodation in the 'social' of social theory. All this suggests that we must discuss the nature and sources of these norms more closely.

Social Responsibility, Power and Legitimacy

If the goal is to explain why some norms produce specific actions and some don't, we must include power (Sorsa 2008) and politics (Hanlon 2008) in analysis. Different institutional forms in organizations' environments provide them different incentives and cause other significant effects towards them, and *de facto* make them behave in differing ways (Campbell 2007). Any actor – business, public agency, NGO, even individuals – that operates in the public domain faces competing speech-acts from various sources about what responsibilities it should have and what organizations ought to do in order to be responsible. Some institutionalized expectations are highly abstracted and have a low level of direct effect: general opinions, consumption behavior, publicity, social activism, public pressure, and general ethical guidelines of companies and communities serve as examples of these kinds of

avenues (Anttiroiko 2004). There are also channels with lower level of abstraction and higher level of direct effects. For example, sanctioning measures and use of power by the authorities, court decisions, legislation, political decision-making, and bi- and multilateral contracts of different organizations are efficient in binding organizations towards certain activities.

Organizations directly face not only competing but contradictory expectations such as, in case of a limited company, simultaneous demands for increasing dividends and salaries in conditions of improving financial performance. The actor is necessarily responsible towards one expectation and irresponsible towards another at the same time whichever choice it makes. Moreover, expectations may be overlapping, self-contradictory, or otherwise mixed, which makes the simple dichotomy of responsibility and irresponsibility vague. Responsibility towards all social expectations is analytically anything but fruitful a view if we wish to explain actions with a responsibility norm we call 'social'. As result, we must have criteria for 'social' so that it includes some expectations and excludes others. The criterion institutional theory proposes is *legitimacy*. Indeed, the institutional environment of an actor gives different normative weights for different expectations and their sources than for others, forming different kinds of orders of legitimacy (Thévenot & Boltanski 2006). Legitimate expectations are not 'implicit' frameworks but acknowledged and broadly accepted norms that are directed to specific actors, include specific claims, and make their ignorance impossible. All these kinds of expectations become pressing especially when they are characterized by dissent and direct contestation of existing practices.

This suggests that organizations cannot choose any responsibilities they like. Moreover, they are as actors in great part already defined by the societal institutions. Yet, there are no fixed

regimes of legitimacy where all actors follow the same normative forms. Actors define and choose the expectations to which they respond, and due to conflicting nature of expectations, all actors inevitably give recognition to different expectations and their providers. They re-interpret and select the expectations towards which they choose to be responsible in their actions, be they explicitly decided or more implicitly present in collective understanding. Put differently, it is impossible to study SR that 'objectively' binds actors without empirically studying the 'subjective' representations and choices made by actors. Similarly, it is impossible to study 'subjective' SR without defining how the 'objective' institutional framework defines the actor and limits its choices. Indeed, as Clark (1997) puts it, all internal representations actors use to guide actions may be best understood as action and context specific control structures rather than as passive recapitulations of external reality. This 'dialectic' nature of impersonal social and personal actor is of course nothing new when social norms are considered (see e.g. Žižek 2006)

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This institutional approach suggests that the divisions between objective and subjective expectations, internal and external frameworks, and institutional form and it's following, are not too fruitful in SR studies. Rather, wherever the expectations are coming from, the key questions are what exactly are the institutional forms that penetrate the activities of individuals, what makes these forms more legitimate than others, what thematic entities actions enabled by these institutions accountably support, and what purposes they do not serve. In brief, our definition for SR is *the control structures and practices that explain how institutionally legitimate actions can accountably generate positive impacts in some legitimized thematic areas expected from the actor*.

Bearing Social Responsibility in Collective Action

Control structures and practices that are intentionally created to generate actions responding to SR-related norms can be called *bearing social responsibility*. This concept is used to draw attention to the question of how socially responsible impacts can be generated in management in contrast to the question of how actions are justified in public communication. Sometimes when the expectations an actor faces do not imply particular actions or management methods, and when complex actions require much interpretation in order to 'make sense' in normative terms, institutional legitimacy can be sought only by communicating actively rather than by managing actions. The question of justification via public communication cannot be avoided when SR is studied (Palazzo & Scherer 2006). In institutional approach, public communication is one type of actions among other actions, but a very particular type of actions since its relationship with other actions is contingent – put bluntly, the public expressions don't necessarily tell us anything about what the actor is doing but are only symbolic in relation to actions. Our goal here is not to explain SR-related justification via public communications, but to see how specific management practices can be considered socially responsible. This is why we have excluded the topic in our analysis, although we regard it as an essential topic for further studies on SR of investors.

Actions are here in Weberian tradition regarded as a subject's externalizations of subjectivity (see e.g. Campbell 1996), whose goal is, in contrast to passive constructions of behavior, to change the prevailing status of subject's environment – and potentially the subject itself, as the social environment defines its social positions (1946). Actions can be related to

expectations in various ways that we cannot discuss here in length. In context of time, for example, the relationship can be preventive, reactionary or positive (see Sorsa 2008 for discussion). Preventive actions are based for instance on social dialogue, ethical guidelines, and other institutional settings preventing irresponsible behavior by preceding change in normative environments. Reactionary actions take place when responsibilities are in general neglected or some abuse has been observed, and social disapproval imposed. These measures are often contrasted with public conflicts, and external sanctioning and coercion. Positive action simply refers to actualizing responsibilities as expected when they occur, which of course applies only to those expectations that explicate certain practices.

A key issue in management-oriented SR studies is that the typical acting subjects are not individuals but collective actors like businesses. Collective action is 'caused by the beliefs and desires -- of the collective itself, whether or not such beliefs and desires can be accounted for or explained in individualistic terms' (Corlett 2001). Responsibility in collective actions refers to the politics of defining what the organization is and of power to produce some consequences instead of others. It cannot be understood, for example, as the minimization of so-called adiaphorization (Bauman 1995), the removal of events and relationships from individual normative scrutiny. It is not the consequences of individuals' actions that are evaluated against the legitimized expectations, but those consequences that can be accounted and attributed to the organization methods.

In middle-range institutional organization theory (see Scott 2008 for extensive review) used in this paper, the primary focus is on methods related to elastic mandates, norms and discursive frames – governance systems and standard operating procedures, authority systems and jobs,

scripts and schema, and so on. The minimum criterion for generating socially responsible actions is that the institutional life of organizations is aligned with the legitimized thematic entities. For the early new institutional theorists, highlighted taken-for-granteds were the key issue aligning organizational consistency besides regulative and normative institutional forms (DiMaggio & Powell 1983; DiMaggio & Powell 1991; Scott 2008). More recently, institutional theorists have highlighted the issue of how these taken for granted institutional forms are in fact used in actions (Campbell 2004; Crouch, Streeck, Whitley, & Campbell 2007). We argue the main criterion for alignment is consistency in actively managing the relationship between SR forms and consequences for example with creative dissonance (Stark 2009) whether it occurs via creating taken-for-granted or other institutional forms or via making individuals use the forms in different ways.

The idea of consistency in management highlights two important issues: integrity and affordances. Integrity illustrates the 'nominal' relationship between intentions and actions in collective terms. Integrity can be summarized as a double test. If an organized activity creates desired impacts and is compatible with a specified responsibility norm in intention, and does not work against the impacts or compatibility of some other norm, it can be called consistent. When all activities achieving impacts compliant with the thematic entities reflect the priority order (e.g. in time and financial resources vested, in liability order, in decision-making lists) of thematic entities, the totality of activities can be called consistent. It must be noted that integrity is not empirically related to coherence between external norms and individual actions but only helps to understand the consistency of collective action in respect to some goals.

But integrity is not always possible to achieve since and collective action is conditioned by intrinsic constraints such as costs, regulative obstacles, or limited cognitive capabilities of human beings. We argue that this doesn't imply that integrity cannot be achieved in aligning organizations: we just have to include these constraints in our inspection. Here, we use the term affordances (see Clark 1997 for review) to highlight this 'constraint and opportunity adjusted' aspect of consistency, or 'real' consistency. Affordances reflect the relationship between external opportunities and intentions of embodied actors. The concept draws attention to the fact that all actions are not possible for a plethora of reasons, be it physical, material, technological, cognitive, social, structural or otherwise, but at the same time they enable and provide opportunities for externalizations of subjectivity for the very same reasons. Bearing SR can be strengthened in management simply by freeing the potential provided by affordances to generate more positive impacts. In the next section, we study affordances modern investment management offers for investment actions.

INVESTMENTS, ACTIONS AND ACCOUNTABLE IMPACTS

Agents and environments are always coupled together and the environments of actors always represent specific opportunities for actions, as the notion of affordance suggests. As the so-called social studies of finance and cultural economy of finance (for an extensive review, see Pryke & Du Gay 2007) and the disciplines of behavioral finance and economics (Akerlof & Shiller 2009; see e.g. Mitchell & Utkus 2004) have shown, it is essential to understand all kinds of cognitive, physical, material and social structures in the domain of finance in order to

understand how actors make sense of the domain of finance and, consequently, to explain investment behavior. The investment activities executed by individuals are of course contextualized by their organizations inasmuch as their external affordances provided by financial markets. The topic of this section is to increase understanding of how affordances provided by financial markets for actions and legitimate expectations can be asserted together in investment organizations – to explore what kinds of opportunities and limitations investment actions provide for creating impacts that bear SR.

In order to limit the enquiry, we study financial investments in terms of portfolio management, although there are no reasons why direct investments or, for that matter, any activity expected from an investor should be left outside empirical analysis – after all, it all depends on what is actually expected from and legitimized by entities called investors. However, due to large-scale financialization of the global economy (Froud, Leaver, & Williams 2007) and our everyday lives (Langley 2008a), and our agenda of addressing issues that have practical relevance, financial investments and their methodologies provide the most important direct opportunities and constraints for actions in investment. We start this section by introducing the basic discursive institutional frameworks of modern finance, after which me move on to discussing the specific impact opportunities investments provide.

Investment Management: Functionalist Calculation versus Impact Investment

After the mathematical revolution in financial practices, especially Markowitz's Modern Portfolio Theory (MPT) based investment paradigm, and in financial economics (Ferguson

2008; see e.g. MacKenzie 2006), investment became a matter of professional portfolio management via exchange of legally backed financial products, which was separated from commitment and usage of direct power brought by ownership. The new paradigm included market-based asset allocation, selection and pricing mostly in secondary markets with mathematic schema and strategies concerning resource allocation between different asset classes, sectors, geographic locations, specialized portfolio managers and other service providers. Investment decision-making was for long written in this so-called 'language of finance' (Clark & Wójcik 2007) that framed all investments and management processes, and was based on information flows in the dominant format of prices. For decades, it provided 'a recipe book' for decision-making with hierarchies and skill recognized by it, excluded other worldviews, was authoritative by defining compliance and non-compliance to mathematical models and thus selecting the investment objects, and still is, first and foremost, English. This kind of conventional portfolio management and investment practices continues to dominate if not the domain of finance at least the world of finance handbooks (Fabozzi, Modigliani, Jones, & Ferri 2002).

However, the language of finance has 'given way over the past few years to a more complex and empirically based investment practice' (Clark & Wójcik 2007). Financial markets and practices are now far more complex and differentiated than it was previously thought possible. Financial products have expanded to include investment in futures, derivatives and elements of social and economic life previously considered impervious to market pricing. Financial expertise requires advanced quantitative skills, probabilistic reasoning and the application of very high-level mathematics. Organizational and management issues have become essential (see e.g. Clark & Thrift 2004) and markets constantly change in their social

characteristics (e.g. Knorr Cetina & Preda 2006). Entire new academic fields have lately emerged to describe, analyze and explain the heterogeneous and complex social, cultural, material and technological life of contemporary finance (for an extensive review, see Pryke & Du Gay 2007)

What is common to the old paradigm and the new 'more empirical' approaches is the thinking of calculation as a central area of activity in investment management. From Max Weber onwards, calculation such as one related to portfolio investment has been regarded as 'an essentially anti-political instrument' (Barry 2002). Calculative portfolio investment and financial risk-taking became depoliticized areas of activity in the 20th century via the moral technology of insurance (De Goede 2004). Here, the power and legitimacy of finance 'turns on its constitution as highly rational, technical and scientific practices that are specific to "finance" as a separable domain of more or less discrete actor-networks' (Langley 2008b). As Langely and numerous other authors have noted, the legitimacy provided by scientific competence has been somewhat questioned after the financial crash of 2007–08. Nevertheless, the hypothesis on anti-political nature of calculation suggests that highly technical investment schema can be left outside normative considerations without too much hesitation, not only by investors themselves but also by other actors.

The focus on calculation tends to see investments as a complex technical matter of selection and pricing, and the only normative concerns are the issues of commitment (i.e. from which activities profits are derived) and performance (i.e. how well do you succeed in your calculation) in the taken-for-granted functionalist framework of generating profits to a given purpose. This functionalist tradition in economics and finance has by and large dominated our

theoretical thinking (see Clark & Wójcik 2007 for detailed presentation). Although we can understand the functional purposes as SR norms, the view is very problematic in our framework: we are locked into only one set of consequences, the performance in a given function, whilst we forget other impacts investment actions generate. The practitioner-proponents of 'impact investment' (e.g. Global Impact Investing Network) have taken a broader view. They take seriously the argument that investment is about all kinds of investment actions that change the social reality and that it is responsibility on this variety consequences based on which investors' success is dependent on, never mind how complex they technically are. This suggests that although externalities are not necessarily present in the regulative or functional framework, they can indeed be present in the normative framework, and they might emerge as issues in public contestation anytime.

Indeed, we analytically regard every investment decision as actions that have consequences that may potentially become scrutinized in normative terms. This is not to say impact investment is an asset class outside mainstream investments or a particular (and good) investment method, as some commentators have recently suggested (Burnand 2009). Rather, it only suggests that the more empirical investment methods of finance in the beginning of 21st century can be evaluated in numerous ways and all impacts potentially generated or interpreted to by supported by investment practices are central in normative contestation of investment activities.

Impact Opportunities in Investment Management

Modern finance provides a variety of different avenues for generating impacts, but as it was noted, it requires an enormous set of skills and includes numerous constraints, institutional and otherwise. Here we discuss how the SR norms could be accountably met in impacts in different investment styles. Again, we are not providing a thorough empirical study but rather want to point out issues that are theoretically relevant for further studies. Our focus is on four issues in asset management: asset selection, pricing, portfolio construction, and ownership.

Asset Selection. Investment vehicle selection is important since power of financial markets and financial activities are not legitimized only by the virtues of prices but equally much by their ability to coordinate general opinion (Eymard-Duvernay, Favereau, Orléan, Salais, & Thévenot 2005). In case of primary markets and especially with vehicles such as private equity, direct loans and corporate bonds of SMEs, coordination of allocation is indeed a major question. The financiers as a collective agent directly decide what the capitalist economy may look like: the direct impact of selection is the definition of who gets to do and what, and with what conditions and expectations. Put simply, if most financial institutions refuse to buy government bonds of undemocratic countries, to lend money to businesses violating workers' rights, or to buy bonds related to environmentally damaging projects, they in effect make these tasks impossible, and free capital to other projects.

Selection of investment vehicles is typically about market exchange, which as a type of action includes only the power of choice (Thielemann 2000) – in simple terms, you can buy and hold an investment or sell and divest it, whether you do it in buy-and-hold style or complex structured arbitrage. This makes accountability of impacts somewhat difficult since they

require trading and there are nearly always numerous other traders. However, it is possible to use these methods in very different ways, for example as ad hoc security selection criteria, as post hoc legitimization features, or as an established, strategic evaluation in decision-making with almost any defined criteria. For example, divestment can be institutionalized as pre-choice qualitative (nominal) screening (e.g. black-listing by sector on ethical basis) or as quantified (ordinal, interval or even ratio) preference orders, in which any criteria, including conventional dualism of profit and risk expectations, or different 'best in class' criteria, can be included. The effects of such methods in selecting the financial products of secondary markets is, of course, potentially very limited, but in primary markets such criteria may prove very effective in directing the allocation of resources to specified economic activities in societies.

Although it might be impossible to account exactly the impacts selection generates in market economies, it is nevertheless very important for many investors since it accountably controls normative commitment. This commitment can be positive or negative, refer to inclusion or exclusion to portfolio by sector, type or virtually any tangible qualitative or quantitative accountable variable like usage of child labor or CO2 emission limits. This is the primary affordance for bearing responsibility in secondary market asset selection. It can be an indication of investor not willing to finance some activity, but in a similar vein, investors can also choose from which activities they do not want to draw returns on the basis of norm saying, for example, that the activity in question should not be a private but public activity financed by taxpayers. It must be also noted that selection criteria aren't always explicit. Perhaps the most typical screening criteria are related to expected returns: investors avoid assets that are expected to perform badly in financial terms.

Pricing. One important question to selection of assets is the question of pricing, both of individual assets and of entire markets. Pricing is the main mechanism with which indirect effects occur. The key issue is that when investors price the future of companies they also price the future for them for instance because investee firms use their stocks as collateral for loans. Pricing also defines profits. Although markets define the spot prices, any valuation over the spot price participates in defining higher valuation. Participation might be a strong issue in contestation, but even more important question is how exactly pricing and discounting happens and to what methods investors are persistently committed.

In somewhat conventional behavioral thinking, there are at least three dynamic areas in which changes in asset prices create direct impacts to the real economy: savings, consumption and investment (Akerlof & Shiller 2009). When asset prices go up, people start spending more because they feel wealthier and think they need to save less. More importantly, companies can get cheap credit with their highly valued stocks as collateral. As Thorstein Veblen had noted already in the very beginning of 20th century, the rise in stock prices provides an incentive for all companies to try to gain competitive advantages in respect to their competitors, which again raises the stock prices (Toporowski 2005). When all companies do it, it creates irrational yield expectations and major financial bubbles (which has again many negative effects to the real economy, see Toporowski 2005 for historical review). Inflating capital markets make corporate financing structures riskier and has in total negative short and long-term effects on the real economy. When stock prices go down, businesses will reduce investments, public confidence starts to decrease, and so on.

In case of equity pricing, fund managers and investment companies distinguish themselves in relation to the market for financial services by particular theories of market value, traditionally including reference to issues such as `growth', the expected short-term stock price appreciation, or `value', the expected long-term stock price appreciation. In the growth method, investors collectively define what variables are considered valuable. The opportunity provided by this method is that basically any qualitative variables can be accommodated to the strategy. The constraint is that the method relies on the assumption that other investors really do value these aspects. If an investor wishes to make profits, it needs to invest in the manner of Keynes's beauty contest according to others' preferences, not its own. The opportunity of value method is the ability to define the future projections alone. The constraint here is that value investing is based on cash-flow analyses and other quantitative tools, in which the usage of qualitative features is limited.

Portfolio Construction. Institutional investors cannot simply choose any asset classes or vehicles they like due to requirements of diversification. For example, ERISA-backed US pension funds must judge particular investments against the composition of the entire portfolio, the liquidity and current return of the portfolio in relation to the cash flow requirements of the plan, and the projected return of the portfolio in relation to the funding objective of the plan, and the investments are required to be diversified for example by investment vehicle types, geographic location, industrial sector and dates of maturity (McGill, Brown, Haley, & Schieber 2005). In terms of affordances all asset selections are hardly possible: single stakes are limited in size, some sectors cannot be overweighed, all locations of activities are not possible, income streams must fit liability stream, management cannot exceed cost limits, and so on. In this setting, the SR of an investor includes the idea

that socially responsible investment methodology must create some less expected impacts or derive profits from sources that do not necessarily serve all expectations.

This is not, however, the only reason why portfolio construction is important in terms of SR. Portfolio construction represents certain understanding of entire markets and asset classes. For example, there is one fundamental decision investors tend to make based on their beliefs of market efficiency and cost control: the choice between passive and active strategy. Passive strategies refer to creating portfolios that replicate some market representations like indices (e.g. S&P 500, FTSE 100). Replication is inexpensive. The rationale in passive strategy is that you can't 'beat' the market performance with 'stock-picking' your own market representation, so it is more beneficial just to follow some established one. Active strategies take the opposite view: they are based on active trading, tactic allocations, and other methods whose goal is to beat the market. Active strategies create their own representations on how markets work. Both strategies are typically used at the same time, for example in 'core-satellite' investment styles. The importance of these aspects is that the more powerful particular representations become, the more performative they potentially are (see MacKenzie 2006; MacKenzie, Muniesa, & Siu 2007).

Another essential issue in portfolio construction is asset allocation according to asset classes. Different classes and types of assets also provide different avenues for directly generating impacts, which suggests one SR policy does not fit all classes. For example, equity makes investors owners of a company or, in case of non-voting right equity, provides capital for activities decided upon by others. Unless ownership is used, the investor has no direct means to generate impacts but can only divest when contested as owners of irresponsible activities.

Lending gives banks direct possibility to control what activities are generated and on what conditions, and ownership of bank makes one participate in these activities. Securitized loans, i.e. bonds and money market instruments, cannot be quite changed in terms, which is why it is essential to know for what purposes they are issued and by whom in order to account for potential impacts. Indirect investments like mutual or hedge funds usually provide even less control over the impacts they are generating, especially for fund investors with smaller stakes.

On the other hand, usage of power is again influenced by beliefs on how markets work. If investors think finance as zero-sum games, they can regard any speculation-based investments as means to derive money away from other investors. Put anecdotally: only if other investors are all considered irresponsible (responsible) is it responsible to win (to lose) money as such. This anecdotal notion is important because it essentially points out the convenience of thinking investments as risk management rather than financial capitalism. But even financial risk management never just reacts to risks: it also creates new definitions of insecurity. While pretending to eradicate risks from business ventures, portfolio management identifies and invents more possible uncertainties to be hedged in general (De Goede 2004). It may immunize individual financial decision-making against failure but at the same time it increases systemic risks. As the recent financial crisis showed, risk management failures and naïve assumptions that risk can be sold away without balance sheet effects in various companies had major effects to the entire domain of finance. This implies that investment activities include important system-wide issues that are not necessarily reflected in any particular security selection activities but only in the level of portfolio interaction. This is why SR is not limited to individual asset classes or vehicles but to entire portfolios.

Ownership. Power can be used specific to avenues brought by ownership of different investment vehicles. Whilst bonds are essential in terms of resource allocation and negative power, equity investment includes much positive power. Equity ownership is not only about commitment to the 'underlying' activity but also as something that can be directly influenced. The question of investment ownership is well documented (in recent literature, see e.g. Choi & Fisch 2008; Clark & Hebb 2004; Clark & Hebb 2005; Clark & Wójcik 2007; Hebb 2006; Monks 2007; Roe 2006; Thamotheram & Wildsmith 2007) and is not discussed in detail here, but in the conclusions section via the example of UNPRI. It is sufficient to note that equity usually provides a regulative mandate to engage in corporate governance (voice) via, for example, proxy voting in shareholder meetings. The typical investee ownership policies focus on remunerations, governance structures, and transparency.

This said, the liability of shareholders is limited and most of them hardly feel responsible for the non-financial performance of firms in which they invest. Share ownership is often widely dispersed and blockholders have had different kinds of interests leading to limited control of firms (Del Guercio & Hawkins 1999). In brief, it is not necessarily easy to use ownership effectively in a capitalist market economy. This also applies to all kinds of possibilities to use power informally on the basis of ownership in buying, holding or selling. For example, a lender can try to affect corporate or even national policies on the grounds of being a stakeholder through bonds, but this should be expected to be quite rare in market-based modern finance. There is some counter-evidence, such as the well-documented cases of World Bank and International Monetary Fund lending to heavily indebted developing countries (see e.g. Fine, Lapavitsas, & Pincus 2001; Jomo K. S. & Fine 2006; Reddy 2007).

The informal influence is fully dependent on whether the investees accept (or are able to or not to accept) to recognize the investor as a legitimate stakeholder or not.

SRI: Vast Opportunities, Limited Impacts

A number of the strategies and methods we have discussed above have been used in different ways especially in the so-called SRI industry. The most common, 'core' SRI, has included ethical exclusions with more than two negative criteria applied, positive screening including Best-in-Class and SRI Theme Funds, and the combination of ethical exclusion and positive screening, and less commonplace, 'broad' SRI has composed of simple screening, including norms-based screening up to two negative criteria, corporate engagement and integration (Eurosif 2008). SRI practices are rarely performed on their own but usually in concert. Mostly large institutional investors have used the 'broader' SRI methods.

All these strategies have been very limited in form and impact. Scholtens (2006) argues that the stock market has had a limited impact whereas banks and venture capitalists have been more successful in driving CSR or 'greening' of business. The stock market hardly provides new finance to the firms and is mostly a vehicle that is suitable for exercising control rights and for 'just investing'. Institutional investors have nevertheless driven the market *for* SR also in stock markets (Clark & Hebb 2005) and their corporate governance focus is changing the culture of using power over companies to more direct struggles (Clark & Hebb 2004). Yet, most financiers do not want to make trade-offs between their multiple goals such as earning a decent return and wanting to improve the social ethical and environmental performance of the

firm. Furthermore, dedicated 'responsible investment units' are most probable actors promoting reformist engagement in organizations, but their institutional status and position may result in very unexpected and ineffective results (see Haigh & de Graaf).

CONCLUSIONS: TOWARDS IMPROVED SOCIAL RESPONSIBILITY IN INVESTMENT?

We have shed light over various issues related to the relationship between SR and investments in a framework that is sensitive to many kinds of institutional changes over time. Investors recognize the social expectations, which have varying strengths and incentives and whose object it is, and selects the expectations towards which it decides to be responsible and reinterprets what thematic entities it binds its success. Investors in any case materialize the responsibility by organizing actions whose legitimacy is based on these entities, but they can also intentionally bear the SR by creating methods that accountably produce positive impacts in these fields. These impacts may be financial, social, or material but they can all serve as the basis for normative contestation. Investors build their own more or less impact-oriented accounts of the market in which they operate in different ways. Selection, pricing, ownership and portfolio construction are essential features in generating accountable impacts, whilst affordances related to general financial market frameworks like exchange-based trading and the 'prudent' inability to bear risks of all impacts and affordances intrinsic to financial actors like liability structures of institutional investors limit these possibilities.

In effect, investors can take or be held accountable for very minor impacts in secondary market transactions, and even less so, if we take into account the essential institutional frameworks of modern finance with for instance prudential or fiduciary regulations. In terms we have discussed SR, the mainstream investment methods are not necessarily any less responsible in impact than other calculative performances. Nonetheless, there are strong rationales for keeping investors responsible for impacts of primary market transactions, and for their ownership commitments to and pricing of underlying activities in secondary markets since there is much room for contingency in these areas. Furthermore, as it was noted, investors as a collective are been held responsible of major systemic issues. In the global financial crisis of 2007–08, it was financial actors that were primarily blamed for driving the global economy into recession. If the investors wish to improve their social legitimacy, improving consistency in the fields discussed above could provide one such avenue.

The loss of legitimacy is perhaps the reason for investors having sought for clear-cut legitimate collective frameworks for their activities. Perhaps the most influential of these frameworks is Principles for Responsible Investment (UNPRI), an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact, but essentially an industry-led project (see Richardson 2007). UNPRI can be called an normative, aspirational best-practice project, whose goal is supposedly not to prescribe any specific investment methods but to get signatories to integrate so-called ESG matters, i.e. environmental, social and governance concerns to investment management. The UNPRI does not require a signatory to demonstrate any particular performance grade with regard to human rights or environmental protection, and it lacks compliance machinery, for example signatories are presently not even obliged to report publicly on their compliance, which has led to

conclusions that Principles are heavily subscribed primarily because of their voluntary nature and the lack of radical changes expected of signatories (Richardson 2009). The Principles promise to offer various tangible benefits like implementation support, reputational benefits, access to peers, and opportunities to collaborate with other signatories (for detailed account, see http://www.unpri.org/). The Principles are listed in Table 1.

INSERT TABLE 1 ABOUT HERE

But what exactly do the Principles stand for regarding the SR of investors in the institutional approach discussed in this paper – do they improve SR? The institution of SR can be defined as the control structures and practices that explain how institutionally legitimate actions are accountably generating positive impacts in legitimized thematic areas expected from the actor. Improvement can have three different forms: broadening of expectations, increasing impact in defined thematic areas, and improvement of accountability in impacts.

Let's start with expectations. Now, it is true the Principles are not prescriptive in the sense that they would define whose expectations investors should be responsible towards and to what exact accounted goals they should aim at. But they are in great part prescriptive insofar as they categorize the somewhat arbitrary thematic areas – environmental, social and governance – in which investors ought to bear responsibility and account their impacts. In order for integration of ESG to be socially responsible, these areas must be present in the expectations directed at the investor in the first place, and also legitimized by the investor. The categories are, of course, very vague – stopping global warming via screening away all carbon-emitting entities and getting good conscience by portfolio managers recycling soda

cans can go under the same title. From the opposite perspective, however, by adopting ESG as such, the investors legitimize future expectations that can be legitimately interpreted belonging under these topics. The adoption of UNPRI thus broadens the potential scope of legitimate SR expectations if we think them in an institutional vacuum.

However, given the macro-level institutional conditions, institutional investors cannot accommodate all expectations. For example, Anglo-American pension funds are based on fiduciary duty, which mandates pension fund trustees to serve the financial interests of their beneficiaries (Clark 2000; Hawley & Williams 2000; Hawley & Williams 2005; Richardson 2009). This suggests investments must be profitable and cannot be made with other primary criteria than the financial one. For instance, this implies two possible uses for ESG criteria in asset selection. Either they are considered the primary criteria determining profitability or they are used a secondary criteria deciding for example between two financially similar vehicles. The former is trivial in the long run – if investee firms pollute, exploit workers, do not pay taxes, and are run bad, they will not too likely generate dividend returns or pay their bondholders. But taking these into account in pricing and portfolio construction was not our question: it is how can they be integrated to selection criteria so that it produces improvement in these thematic areas accountably without causing loss of returns. There are very few opportunities for this, since improvements in these areas are very likely to increase costs.

So, in both cases, liquid profitability-prized financial expectations remain the first and foremost in investment however ESG is adopted. If the future expectations fiduciary duty bound investors face include other than purely capitalist forms of wealth creation within the ESG themes, the adoption of ESG more likely causes normative conflict than adoption of

broader SR in expectations, which could be achieved more effectively by de-legitimizing or changing other expectations like fiduciary duty. This is of course nothing new. It is well documented that institutional investors have various obstacles for broadening SR, including short-termism, gravitation towards defensible decisions, and general reluctance to integrate responsibility factors into the core investment process (Guyatt 2005).

Another possibility to improve SR is to produce better impacts on responding to expectations. Since there are only very weak if any mechanisms UNPRI provides to ensure impacts (Richardson 2007), it would be not quite right to say that becoming a signatory would as such produce more impacts. It pinpoints some mechanisms for improving impacts that are not anything unique, like developing metrics, increasing portfolio manager and analyst capabilities, reforming external management mandates, and so on. Clear policy guidelines in primary market financing activities and tying portfolio manager remunerations to other than financial goals might increase impacts. This is, of course, only speculation unless clear metrics and benchmarks for impacts are created. Nevertheless, UNPRI offers one opportunity to increase effects in ownership: collaboration. Individual pension funds for example cannot own big stakes in individual companies and their resources to corporate engagement are extremely limited. Through collaboration, however, these issues can be overcome. Via the case of ownership, UNPRI might offer a very important avenue for improving SR if investors with similar responsibilities ally and use their influence in companies to produce better impacts.

The improvement of accountability is among the essential features UNPRI promises to support. In asset selection, pricing, portfolio construction, manager mandating, ownership

policies and so on clear policy guidelines, metrics, tools and reports improve public accountability. But this is not quite the same thing than in context of SR: accountability refers to accounting of consequences of the actions to that specific actor. In this respect, UNPRI provides little support for improvement but relies on the idea of integrating these concerns in decision-making – not their results Ownership collaboration aside, in order to improve this aspect of SR, UNPRI needs to pay closer attention to the impacts of investor activities, both in individual investor and the UNPRI community level.

To conclude, it must be noted that improving SR is never a homogenic normative goal, which applies to the case of investors like all social actors. It may be about dissolving dissent and contestation on one hand but on the other it is likely to increase them. The only thing that matters is the consistency between broad social legitimacy and the organizational life. Yet, the virtues of finance in the last few decades, the ability to gain returns via pricing and to coordinate public opinion (Thévenot & Boltanski 2006), might not bring legitimacy in future. Expensive asset management and financial crises fuelled by irrational exuberance, too high return expectations, decisions to over-leverage, and lax governance hardly fulfill even the old virtues. The change in macro-level institutional frameworks like regulations and organizational templates would most likely change the SR of investors more than any reinterpretation effort. Yet, when we talk about social responsibility, our focus is on very specific actors. Whether the SR of investors is changing or not always depends on both the investors and their environments. Investors have a significant role in re-legitimizing old and new expectations, but, as Beck (1999) pointed out already a decade ago, global financial markets have become one of the most important domains of supranational political

contestation. It is very likely SR will be one of the essential discourses used in this contestation.

Principle	Possible Actions
(1) We will incorporate ESG issues into investment analysis and decision-making processes	Address ESG issues in investment policy statements Support development of ESG-related tools, metrics, and analyses Assess the capabilities of internal investment managers to incorporate ESG issues Assess the capabilities of external investment managers to incorporate ESG issues Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis Encourage academic and other research on this theme Advocate ESG training for investment professionals
(2) We will be active owners and incorporate ESG issues into our ownership policies and practices	Develop and disclose an active ownership policy consistent with the Principles Exercise voting rights or monitor compliance with voting policy (if outsourced) Develop an engagement capability (either directly or through outsourcing) Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights) File shareholder resolutions consistent with long-term ESG considerations Engage with companies on ESGissues Participate in collaborative engagement initiatives Ask investment managers to undertake and report on ESG-related engagement
(3) We will seek appropriate disclosure on ESG issues by the entities in which we invest	Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative) Ask for ESG issues to be integrated within annual financial reports Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact) Support shareholder initiatives and resolutions promoting ESG disclosure
(4) We will promote acceptance and implementation of the Principles within the investment industry	Include Principles-related requirements in requests for proposals (RFPs) Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate) Communicate ESG expectations to investment service providers Revisit relationships with service providers that fail to meet ESG expectations Support the development of tools for benchmarking ESG integration Support regulatory or policy developments that enable implementation of the Principles
(5) We will work together to enhance our effectiveness in implementing the Principles	Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning Collectively address relevant emerging issues Develop or support appropriate collaborative initiatives
(6) We will each report on our activities and progress towards implementing the Principles	Disclose how ESG issues are integrated within investment practices Disclose active ownership activities (voting, engagement, and/or policy dialogue) Disclose what is required from service providers in relation to the Principles Communicate with beneficiaries about ESG issues and the Principles Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach Seek to determine the impact of the Principles Make use of reporting to raise awareness among a broader group of stakeholders

Table 1. Principles for Responsible Investments and Possible Actions (source: http://www.unpri.org/files/pri.pdf – accessed November 2009)

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