

**Responsible Investment indices and responsible corporate behaviour:
effects of measurement and engagement**

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Abstract:

In this paper I investigate the effects of being listed on Responsible Investment (RI) indices on corporate behaviour. I present the results of an exploratory study of the usage of RI indices by managers when developing and promoting Corporate Responsibility (CR) practices within their companies. The findings suggest that when managers react to the indices' requirements, they can be used to showcase and celebrate CR practices. In addition, index requirements can become internalised within CR practices to produce changes in perceptions regarding responsible corporate behaviour. The study shows that RI indices could be used under certain circumstances as tools to influence responsible corporate behaviour.

Key words: Responsible Investment, Indices, organisational behaviour, Corporate Responsibility

RESPONSIBLE INVESTMENT INDICES AND RESPONSIBLE CORPORATE BEHAVIOUR: EFFECTS OF MEASUREMENT AND ENGAGEMENT

In this paper I explore how measures used in the responsible investment (RI) market can be used to change corporate behaviour. The RI market is a relatively small but fast growing organisational subset of the financial market, which has relied heavily on quantitative tools to measure corporate social performance (Déjean, Gond, & Leca, 2004). By mimicking the quantitative measurement tools available in mainstream financial markets, social rating agencies are able to promote RI more effectively to traditional investors (Déjean et al., 2004). With the growth of RI in recent years a large number of RI indices have been developed by social rating agencies and financial index providers. Relatively little attention has been paid to the influence of these measures on the behaviour of the companies that are being measured. They are often mistaken for simply being a means to boost corporate reputation (c.f. critical management studies of CSR e.g. Banerjee, 2008).

Public measures can indeed be used for reputational purposes, as is evidenced in studies on rankings in the field of education (Martins, 2005). Prior work also shows that the effects of public measures can be much deeper, affecting organisational identities (Elsbach & Kramer, 1996), cognitive structures and organisational behaviour (Espeland & Sauder, 2007; Sauder & Espeland, 2009). Rankings are reactive: individuals or organisations change their behaviour in reaction to being evaluated, observed or measured (Espeland & Sauder, 2007:1). In the longer term this reflexive component can lead a change in cognition; to internalisation of the requirements posed by rankings, as organisations anticipate the evaluation and become self-disciplining in their response (Foucault, 1977; Power, Scheytt, Soin, & Sahlin, 2009; Sauder & Espeland, 2009).

In this paper I explore the ways in which companies that are listed on a RI index - the FTSE4Good Index - have reacted to, and internalised the requirements of this index. The analysis relies on data derived from 20 interviews with managers who are responsible for CR programmes of companies that are listed on the FTSE4Good index. These data are supplemented by FTSE4Good archival data. The findings suggest that managers celebrate index inclusion and engagement with the index providers in order to remain included. Both mechanisms play an important role in creating reactivity to the index requirements. The findings also show that extensive celebration leads to internalisation of index requirements through strategic use of index inclusion as a point of influence within the company for a number of CR managers. In addition, practices such as benchmarking CR performance by means of index inclusion can lead to a change in perceptions of CR within the company.

The implications of the study are threefold. Firstly, the findings highlight the constitutive aspect of ceremonies and organisational routines related to public measurement. This deserves more attention in studies of educational rankings and the wider literature on the effects of evaluation on organisational behaviour. Secondly, this exploratory study shows that external evaluation can lead to a change in the cognitive structures internal to the organisation, which may fuel changes in organisational behaviour in the long term. Lastly, it points to the powerful effects of calculation (Callon, 1998; Callon & Muniesa, 2005) that is embedded in RI indices. By studying public measures from a field different to education, I show that in the context of RI, these calculative effects can be harnessed to change organisational behaviour on issues of concern for responsible investors.

This paper is organised as follows: part 1 introduces the theoretical perspective on the influence of public measures on organisational behaviour. Part 2 introduces the data and methods deployed to study the interaction of CR managers with the FTSE4Good Index. Part

3 discusses the findings. I conclude in part 4 with a discussion showing the main implications of the study for future academic research and practitioners in RI.

REACTIVITY AND INTERNALISATION

Evidence from studies on rankings in the field of education

Public measures are an increasingly common aspect of organisational life (Power, 1997). In the field of education this seems particularly true, as a large number of publicly available rankings exist for universities, business schools and law schools. Public measures such as rankings are reactive: they elicit responses from the individuals or organisations being measured (Espeland & Sauder, 2007: 2). The concept of reactivity as a form of reflexivity stems from methodological concerns that it can contaminate valid measurement (Campbell, 1957; in Espeland & Sauder, 2007). Applying the concept to public measures draws attention to the effects of reactivity on the objects of measurement, effects which may be harnessed by the actors involved (Espeland & Sauder, 2007).

In the case of the *U.S. News and Report (USN)* rankings of law schools Espeland and Sauder (2007) identify two mechanisms through which this reactivity is channelled: self-fulfilling prophecy and commensuration. Measurement can create self-fulfilling prophecies because it raises expectations and people change their behaviour in accordance with these expectations (Espeland & Sauder, 2007:12). This mechanism is particularly salient in public measurement when the outcome of measurement can change the actions of external audiences. In the case of law school rankings for example, lower ranked schools have lost cross-admitted students to higher ranked schools (Espeland & Sauder, 2007: 13).

Organisations under evaluation might not agree with the measurement criteria, but when these are taken at face value by external audiences, they are forced to pay attention (Sauder, 2008). Commensuration, or the transformation of different qualities into a common metric,

simplifies information and renders what is being measured relative and comparable (Espeland & Stevens, 1998). This is a powerful mechanism in the case of quantitative measurement, as numbers are seen as more authoritative and comparable than qualitative information (Porter, 1995). Numbers are easy to circulate and re-use in different contexts, which facilitates ‘action at a distance’ for those in government roles (Vollmer, 2007: 580).

Reactivity can cause organisations to redistribute internal resources to elements of the organisation that matter most for external measurement. It can also lead to a redefinition of work within the organisation, as more time is spent on preparing for the external evaluation (Espeland & Sauder, 2007). Reactivity can also cause organisations to engage in gaming strategies, whereby the symbolic responses to evaluation are decoupled from the actual organisational practices (Meyer & Rowan, 1977; Espeland & Sauder, 2007). Within institutional theory, the concept of decoupling signifies a disconnect between high-level organisational policies and concrete implementation on the ground in response to institutional pressures (Hirokawa & Schofer, 2002; Meyer & Rowan, 1977). In this view, decoupling means organisations can react to rankings in a symbolic way, without necessarily internalising their requirements.

Recent work in institutional theory pays increasing attention to the consequences of symbolic management of institutional pressures (Fiss & Zajac, 2006; Gioia, Thomas, Clark, & Chittipeddi, 1994). These studies show that decoupling is more nuanced and organisations can be forced by insiders to ‘walk the talk’. (Fiss & Zajac, 2006: 1187-1188). Adoption of a policy by top level management for symbolic reasons can become an act that affects the organisational identity and can serve as a resource for lower level managers or external stakeholder groups (Hirokawa and Schofer 2002: 217). Discourse that is grounded in symbols and metaphors can be used as a strategic resource to help the enactment of particular strategies (Hardy, Palmer, & Phillips, 2000). Symbolic management of institutional pressures

could therefore also lead to internalisation of those pressures in the long term.

When organisations respond to external evaluation measures such as rankings, it seems complete decoupling is particularly hard. Evidence from the field of education instead suggests organisations internalise the measurement to such an extent that it shapes perceptions of organisational identity (Elsbach & Kramer, 1996; Martins, 2005). Rankings serve as tools to facilitate comparison between diverse organisations, to signal status and reputation and as such form an important reference point for organisations (Wedlin, 2007: 26, 37). The disciplinary power of rankings changes the perceptions, expectation and behaviour of internal and external audiences to such an extent that they become self-disciplining for the organisations being evaluated (Sauder & Espeland, 2009).

Internalisation of public measurement leads to changes in cognitive structures within the organisations that are being evaluated. Drawing on Foucault's concept of discipline, Espeland and Sauder (2009) argue that law schools were unable to buffer their activities from the disciplinary power exerted by the *USN* rankings. The rankings initially produced anxiety and resistance with organisational decision-makers, but over time their allure and importance increased (Sauder & Espeland, 2009). The effects of this disciplinary power were extensive celebration of good news (defined by a good ranking; bad rankings similarly created extensive analysis and introspection), a redefinition of organisational strategy in line with the evaluation criteria, and the development of administrative routines to support collection of information for evaluation (Espeland & Sauder, 2009). Once organisations start to supply the information needed for evaluation, they can come to internalise the constituent elements of the measurement as performance variables (Power et al., 2009). Public measures can thus come to shape organisational cognition and establish the norm of excellence to which all organisations must conform (Espeland & Sauder, 2009).

In summary, reactivity can be seen as a process that changes organisational behaviour

in line with the measurement criteria. The internalisation of the perceptions and frames that underlie public measures change internal cognitive structures, which can lead to longer term changes in organisational behaviour. Both processes therefore take place on a continuum of coupling organisational responses to external evaluation, from relatively decoupled reactive responses to tightly coupled internalised perceptions of public measures (Power et al, 2009). By studying a public measure in a field that is very different to education, this continuum can be explored further, highlighting different causal mechanism and consequences of both reactivity and internalisation.

Evidence from studies on RI metrics

The metrics used in RI, such as the RI indices, are clearly different from the public rankings in the field of education. One difference concerns their breadth: the *USN* rankings evaluate *all* law schools in the US, whereas no RI index could ever rate every listed company in the market (Adam & Shavit, 2008). Not all RI indices are relative measures: indices like the FTSE4Good index series are absolute benchmarks, which include all rated companies that have passed the threshold set by the index criteria. This means no hierarchy is created among listed companies, and some of the competitive elements of external evaluation are therefore lost. In contrast, indices such as the Dow Jones Sustainability Index are relative benchmarks, and include only a fixed amount of top rated companies.

Notwithstanding the differences with rankings in the educational field, there are certain elements in the field of RI that could lead rated companies to react to or internalise RI indices. The environment for corporate responsibility is highly uncertain, as different stakeholder groups assert various demands. Whilst investors show an increasing interest in non-financial aspects of company performance, companies are often uncertain about how to present their CR policies and programmes to investors (Hockerts & Moir, 2004). Obtaining

inclusion in an RI index can be one of the ways to handle these pressures. Inclusion in RI indices can be used as a type of certification of good CR practices, and companies often display their inclusion in their sustainability reports (Gond & Herrbach, 2006). RI indices can serve as tools for organisational learning when used as benchmarks for CR performance. Even filling in the questionnaire that provides the information upon which companies are rated can present a useful organisational learning exercise (Hockerts & Moir, 2004: 94).

It is possible that the influence of the indices could not only require additional resources to conform to new criteria but could also lead to the creation over time of new mentalities, new incentives and perceptions of significance (Power, 1997: 97). Only a handful of studies on RI have looked at the impact of indices on responsible corporate behaviour. Adam and Shavit (2008) find that obtaining a ranking on RI indices is not an incentive for companies to invest resources in CR so long as its peers are not ranked (Adam & Shavit, 2008). Scalet and Kelly's (2009) study suggest that companies do not communicate about negative CR events, but highlight positive CSR news, including good ratings (Scalet & Kelly, 2009). Chatterji and Toffel (2009) look at the impact of being rated on environmental performance, finding that companies with poor ratings will improve their environmental performance (Chatterji & Toffel, 2009).

Each of these studies employs a macro-perspective to examine different aspects of corporate behaviour and performance. These studies have not managed to explore the micro practices involved with being included on RI indices. An exception is the study of Collinson *et al* in which the authors explore the views of sustainability managers regarding the impact of inclusion on the FTSE4Good index on their corporate conduct (Collinson, Cobb, Power, & Stevenson, 2009). Whilst this study provides a good overview of the opinions of European managers regarding the financial benefits of index inclusion, it has not managed to capture the effects of engagement activities undertaken by the index provider FTSE, nor the strategic

use of index inclusion by sustainability managers. Both elements could however hold important clues for a more encompassing view of changes in corporate behaviour in response to index inclusion. The following section explains why engagement is an important element of the FTSE4Good index and describes the methods deployed to capture the effects of the micro-practices of managers involved with index inclusion.

METHODS

Context: RI indices

Equity indices equip investors with tools designed to reflect the state of the market, and can be used to compare the performance of a portfolio of specific companies against the overall market performance at different times (Arnold, 2004). They are also used as a basis for creating funds and investment products such as derivatives. I focus here on a particular index family: the FTSE4Good index series¹. The FTSE4Good index series was launched in July 2001 and has been updated twice a year to include new companies that meet the inclusion criteria and exclude those that no longer comply. Inclusion criteria have been tightened over the years; current aspects of CR covered by the inclusion criteria are human rights, supply chain labour standards, environmental management, countering bribery and climate change. Even though the inclusion criteria have become stricter since the launch of the index in 2001, an increasing number of companies are included in the index series. Companies are assessed by social rating agency EIRIS, who assemble a profile of CR practices, based on publicly available corporate information and ask company contacts to update it and provide missing data.

Throughout the year an extensive engagement programme is undertaken by FTSE's Responsible Investment (RI) unit with companies that are under threat of being excluded from the index because they failed to continue to meet the inclusion criteria. Companies are

advised of their current position and provided with information regarding changes they need to implement to conform to the criteria. This dialogue with constituent companies therefore has the goal of changing responsible corporate behaviour in line with the inclusion criteria. This makes the FTSE4Good index series different from the *USN* rankings, which were never designed to *change* the law schools that they were evaluating (Sauder & Espeland, 2009: 74). The FTSE4Good index series was selected for this case study because this engagement element with constituent companies makes it unique amongst RI indices. It also provides a good opportunity to study whether and how this element strengthens the reflexive processes involved with external ranking and evaluation.

Data collection and analysis

The objective of this exploratory study was to investigate how being included in the FTSE4Good index series affected the day-to-day practices of managers responsible for CR matters and to explore how they use the fact of inclusion in internal and external CR promotion and development. Towards this end I interviewed 20 managers about the relevance and use of index inclusion for CR practices within their company. Table I sets out the details of the respondents to the interviews.

I adopted a grounded approach to data collection and analysis (Glaser & Strauss, 1967). The sample was selected from the group of companies that had been in dialogue with the FTSE4Good RI unit in 2009 with regards to having to meet specific criteria indicators in order to remain included in the index. This strategy of studying recent events was deployed to counter any retrospective bias (Golden, 1992, 1997) that might occur, whilst at the same time selecting the sample from this group meant a wide variety of cases were represented. Four companies had only been included in the index in recent years; 15 had been included for four years or more. One company had been excluded in previous years and consequently had

regained entry. As the FTSE4Good index series has global coverage, the selection of countries was effected so as to ensure the coverage of companies from different industries and different parts of Europe, Australasia and the US (see table I).

Data were collected through 20 semi-structured interviews, of which two were conducted in person and the remainder by phone. Although interviewees had various roles and job titles, their remit always included sustainability issues and liaison on these issues with RI analysts and rating agencies, including the FTSE RI unit. Interviews lasted on average 50 minutes. Hand-written notes were taken during the interview, and all interviews were recorded and transcribed. The interview data was triangulated with FTSE4Good archival data to get a complete picture of the length and extent of the dialogue between company managers and the FTSE4Good RI unit.

The analysis of the interview data developed inductively (Miles & Huberman, 1994). First, the hand-written interview notes were examined to develop a tentative list of codes. These codes focused on the effect of index inclusion on different organisational practices (data collection, reporting, training etc.) and broad themes (problems with measurement of CR, stakeholder demands for CR etc.). This coding list was then used to code the interview transcripts with N-Vivo 8, leading to the development of additional codes and categories. After the initial coding with the coding list, the interviews were then recoded by separating the codes regarding effects on organisational behaviour from mechanisms causing reactivity and internalisation. I found two mechanisms, engagement and celebration, leading to various effects on organisational behaviour. After introducing the main reasons for inclusion in RI indices for companies, the following section will describe each mechanism in turn.

FINDINGS

Motivation for seeking and maintaining inclusion in RI indices

The motivations of CR managers for inclusion of their company in the RI indices, and the decision to invest resources into responding to the social rating agencies in order to obtain or maintain inclusion, are mainly derived from the external environment. Most interviewees see increasing demand from stakeholders for inclusion. CR managers find increasing interest and activism from responsible investors and seek inclusion in RI indices in response to this growing market. But motivation for inclusion in RI indices is not driven only by the need to meet responsible investor demands for information, it can also be used to showcase to other external stakeholders groups that the company has good CR practices, including local stakeholders such as prospective employees:

‘The undergraduates coming through are pretty fussy about who they want to work for, they want to look for companies that have a decent performance. [Inclusion in RI indices] is recognition by independent credible parties like FTSE and Dow Jones; it is a lot more credible than anything we can say on our website.’(CR Manager)

The showcasing of CR practices by means of index inclusion has two elements to it: on the one hand some of the CR interviewees seek inclusion in RI indices to show to a wide audience that they have ‘passed the mark’. In their view inclusion accredits their efforts and activities related to CR:

‘So the things that we’re doing, we’re doing them because it’s good to do them. The fact that we’re on the index is a nice bonus. We aren’t doing things to be on the index, we’re on the index because we’re doing things.’ (HS&E Manager)

On the other hand there is also the recognition that RI index listings can be used as a sort of ‘badge’ for CR: it accredits good CR practices whilst at the same time disguising the details of those efforts to the wider audience. There is no need for stakeholders to research

each company in detail, as the index listing shows everything has been found satisfactory:

‘There’s a lot of information and some people, if they can’t read through everything or maybe they don’t understand, they will see that we have been accepted on an index like FTSE4Good and they could think okay then, everything is okay’ (CR Manager)

Index inclusion is also sought for reputational purposes. Inclusion in the FTSE4Good index series is used as a badge for good CR that is granted by an external organisation, which itself has a good reputation in the financial world:

‘I think most people know the FTSE and the fact that we have a listing on the FTSE4Good [index] is just an indication of credibility of what we’re doing’ (CR Manager)

Once companies are starting to use index inclusion as a badge for good CR practices, they are also conscious of losing it by falling out of the index. This finding aligns with the findings of Collinson et al (2009) in their survey of companies listed on the FTSE4Good, in which they perceive the greatest leverage of the index on corporate behaviour is based on fear of exclusion.

‘I think it would be a big concern if you fell out [of the index] because you would have to justify why you were doing that. And I think you would just be expected to be there and to be in it.’ (VP CR)

Surveyed companies felt that it was important to remain within the indices to avoid any stigma or embarrassment that might be caused by being expelled (Cobb, Collison, & Stevenson, 2005). As will become clear from the following section, this fear of exclusion is used by FTSE’s RI unit in the engagement process with companies.

Engagement

The index is reviewed twice a year to include new companies that meet the criteria and exclude those that no longer meet. Those companies that are under threat of exclusion from the index are contacted by FTSE’s RI unit to advise them of criteria indicators that they are not meeting. This is based on research into company CR practices by social rating agency

EIRIS. The interviewed managers responded to the EIRIS analysts and the FTSE RI unit by providing more information, as evidence of meeting the criteria.

‘A lot of what we were providing them was in the public domain anyway. It wasn’t really new information. It was just a matter of building the appropriate story around the information that was there to demonstrate to them why those numbers would actually meet those criteria’ (CR Manager)

The managers also have the opportunity to enter into a dialogue with the RI unit regarding the external evaluation of their CR practices, and share drafts of new policy documents, before they are evaluated by the researchers. Sometimes the engagement process consists of a few emails to clarify questions and provide information from both parties, whereas other times it is a more lengthy process that can take a considerable amount of time, as CR managers work with colleagues to draft new policies or reporting.

‘My boss actually had a call with one of the [RI] team members and then we had some correspondence, we asked what do we miss, what is lacking? And they said these are the missing elements and then we worked to improve that, so that it was correct.’ (CR Manager)

The most obvious result of the reactivity to the index requirements and the accompanying engagement process is an increase in public disclosure and reporting on CR practices by companies, as these elements form an integral part of the FTSE4Good index inclusion criteria. This often means companies have to collect more internal data on CR practices in order to prepare for disclosure, and the index criteria thus become incorporated into internal data collection practices.

‘I started developing some questionnaires myself to gather the data that I was being asked for by FTSE. When I couldn’t find the answers, I suggested perhaps some new data we ought to be collecting to make sure that it would be easier for me in the future [...] Doing the FTSE thing has developed some good disciplines that we’ve built into our business and now it’s much easier. I’m doing myself out of a job in a way, which is a good thing I think, because it is giving you the discipline to establish procedures.’ (VP Public Affairs)

Companies also react to the engagement by (re) drafting their policies, management

systems or reporting in line with the index criteria:

‘We subsequently ended up modifying our policy statements with regards to collective bargaining and freedom of association. The discussions I had with [the RI unit] were around the materiality of those changes [...] Notwithstanding that, we did actually modify both the checkpoints in our audit tool pertaining to freedom of association and collective bargaining, and the description of the standards in our published policy document, in accordance with the FTSE recommendations.’ (CR Manager)

Other responses to the engagement process lead to longer term changes in internal perceptions of CR practices, as the index criteria were used to educate employees regarding CR practices. A few interviewees mentioned they had developed training sessions for employees based on the newly drafted policies. For a quarter of the managers that were interviewed index inclusion formed part of their performance evaluation and strategic objectives:

‘It’s certainly in my performance objectives to maintain my place on the FTSE[4Good] and on the Dow Jones [Sustainability Index]. If we get kicked out, I’ve got some explaining to do.’ (CR Manager)

Some managers have turned the engagement process into a proactive dialogue and interaction with the RI unit. They try to meet annually with the team to inform them about current activities with regards to CR, whilst the meeting also serves as an opportunity to stay abreast of any changes in index criteria that could threaten their ongoing inclusion. For these managers the threat of exclusion caused them to develop a routine interaction with their evaluators:

‘To know of any changes that are coming up, anything that I might need to be doing this year that I didn’t do last year to remain on the index. You know, what I don’t want to do is to find out next August that we’re not going to be on the index because I could have been doing something now in November of this year that would have been good for us’. (HS&E Manager)

Celebration

As companies use index inclusion for reputational purposes and to showcase that their

CR practices ‘meet the mark’, the display of inclusion becomes a central mechanism that drives their behaviour towards the indices. Most companies use the logo of the FTSE4Good index (and other indices) in their CR reporting or place it on the CR pages of their corporate website; a few place it on the Investor Relations pages instead. Some of the interviewed managers also use the logo when they are presenting their CR practices to external audiences, such as during investor road shows. Display of the logo to external audiences is more popular than display of the annual certificate of inclusion, which is meant to serve as an artefact to display index inclusion within board rooms. Index inclusion is however reported and displayed internally within companies in various other ways. As well as celebrating index inclusion with employees, it also forms part of the reporting of CR performance to senior management for almost all of the interviewees. Good news stories, like obtaining inclusion in the index, are celebrated as the result of hard work involving many colleagues:

‘We have this portal where we can publish CR stories. When we were accepted, we of course made a story saying it’s time to celebrate because we have worked on getting on this index and now we have been listed. It is very important for the CR success that the employees know what we are doing.’ (CR Manager)

Even though most interviewees engage in celebration of index inclusion through display of the logo and internal or external reporting, not all managers see value in this celebration. Instead these managers emphasize the content of their CR activities, rather than certification of those activities by a third party. Index inclusion is seen as an indirect result from their CR performance, which is not under their control. For these managers, index inclusion in itself is not an objective of their CR strategies.

‘We don’t make a lot of use of it because it’s not really about us, it’s about them. It’s actually a measure of somebody else’s intention, not of what we do. We manage the business; we don’t manage other people’s opinion of us.’ (Director Communications)

Others do see value in celebrating index inclusion and make strategic use of it when promoting and developing CR practices. In some companies, being included in RI indices is

part of the CR strategy. RI indices can provide a leverage that can be used in their day-to-day practices. Indices can be used to educate colleagues about CR and the importance of CR practices to external stakeholders such as investors. For instance, the indices can be used as an explanation to colleagues as to why they have to collect and monitor vast amounts of information, something which might take up valuable resources.

‘We do a lot of environmental certifications at our production sites. We give them the connection what this work is for, why we do this and who cares for it. I visit the production sites and make a presentation. I tell them about FTSE4Good and that we think it’s necessary for our company to be within this index. And one threshold to enter the index is also a strong environmental certification.’ (CR Manager)

RI indices can also provide leverage internally, as CR managers can point to the requirements of the indices when trying to get initiatives approved by senior management. RI indices are one of the external CR frameworks and measurement tools they can point to:

‘There are a few things that help us as a CSR department to get initiatives approved. If we can say: ‘Hold on, we need to implement this or do this, it is a requirement of FTSE[4Good] or Dow Jones [Sustainability Index]. All these kind of things help us as a department get initiatives approved.’ (CR Manager)

RI indices are also used by managers to benchmark their company’s CR performance. Firstly, the indices provide an indication of the performance of competitors and peers against which CR practices can be compared. Secondly, the annual feedback from the social rating agencies regarding completed questionnaires and profiles is used to benchmark CR performance internally. The questionnaire is used as an assessment tool, to find out how external rating agencies perceive CR practices, and to help obtain annual improvements in performance:.ⁱⁱ

‘And the questionnaire does not become just another questionnaire to complete but it becomes a sort of a self-assessment as well. It is not a single person who completes the questionnaire, a whole cross-functional team is gathered for the FTSE [...] And the performance of the previous year is discussed; the performance is discussed throughout the year as they complete the information. Plus the feedback that comes from the institution.’ (Director Investor Relations)

The interaction with RI analysts and social rating agencies requires significant resources in terms of time and effort. Most of that effort is directed to the collection of internal data that is needed to answer the questions posed by these organisations. Over the years many companies have strengthened their internal data gathering and monitoring systems in order to comply with demands for more comprehensive CR reporting. Those systems are also modified to provide the information that is needed for continued inclusion in RI indices, by systematically integrating the annual requests from social rating agencies.

‘I think we’ve got the folks internally who need to respond to information requests attuned to it by now. [...] It has actually become a lot more systematic than it was when we first kind of just did it sending emails out to people.’ (VP CR)

Index requirements have been internalised in administrative routines within the organisation, in terms of data gathering as well as intense analysis of the results of the evaluation. The administrative routines drive an attention to detail within the organisation and vigilance of index requirements that can collectively promote internalisation and change organisational perceptions of CR (Espeland & Sauder, 2009).

DISCUSSION AND IMPLICATIONS

RI indices have been an important element in the growth and legitimisation of the RI market (Déjean et al., 2004). The findings of this exploratory study of the use of RI indices suggest that the reflexive and cognitive processes associated with evaluation and measurement of responsible corporate behaviour has the potential to render RI indices constitutive of what they measure. The mechanism of engagement is particular salient to the FTSE4Good index. It creates strong reactive processes within the companies that are under threat of being excluded from the index. Companies are seen to develop their public reporting on CR, increase their internal data collection that feeds into the reporting, and in some instances change their CR

policies and management systems in line with the index criteria. In the longer term changes in perceptions of CR are driven by the development of internal training systems and performance objectives that are related to index inclusion. For some companies this is a reason to develop an active engagement dialogue with the evaluators.

Index inclusion is celebrated externally by showing the index logo's in CR reporting and presentations, and internally by providing news to employees as well as senior management. This provides leverage for strategic use of the index symbols by CR managers: they can point to the index requirements as a motivation for increased data collection, to educate employees on the importance of good CR practices, and to get initiatives approved by senior management. Through benchmarking CR performance against the indices and incorporation of the index requirements in administrative routines, index requirements become internalised, changing managers' perceptions of CR practices in line with the outcomes of the evaluation.

Inclusion in RI indices is driven in part by the belief that inclusion is important for stakeholders such as customers, investors and employees. Increasing reliance of external stakeholders on the educational rankings forced schools in the US to take them more seriously (Sauder, 2008). Compared to these public measures in the field of education, RI indices seem to have produced less anxiety and greater allure for corporate managers. They complain of questionnaire fatigue and an increase in workload associated with responding to RI analysts and researchers. Despite their complaints they are seen to make strategic use of the indices to shape CR practices by using the internal leverage the indices provide. They celebrate inclusion and use the symbols associated with inclusion in their discourse to help the enactment of the CR strategy (Hardy et al., 2000).

Index requirements become actively incorporated in CR strategies through these celebration ceremonies as well as through administrative routines such as data collection,

monitoring and training. This reinforces the constitutive aspects of public measures.

Celebration ceremonies and organisational routines can affect internal cognitive structures in such a way that organisational cognition becomes dependent on evaluation as promoted by RI indices and other external monitoring tools. Whereas reactivity spurs on immediate changes in organisational behaviour that are relatively decoupled from cognitive structures, internalisation changes organisational cognition, which can lead to tightly coupled changes in organisational behaviour in the longer term.

Academic studies of RI have had limited attention for the effect of RI indices on corporate behaviour, focussing their attention instead on the question of financial performance of RI portfolios and funds (Margolis & Walsh, 2003). Research regarding the financial performance of RI often uses data that have been produced by social rating agencies, but a critical examination of the effects of RI metrics is rarely found in this type of research (Schepers & Sethi, 2003). The findings of this study show that the calculative processes embedded in the RI indices can serve as a catalyst for reflexive and cognitive reactions from the part of the organisations being evaluated. These effects have so far escaped from the macro-perspective employed by the few studies on the effects of RI indices on organisational behaviour. Through a more in-depth exploration of the use of RI indices by corporate managers in their day-to-day activities, it is clear that the constitutive elements of measuring CR need to be taken into account when studying the relationship between corporate financial performance and social performance.

The intention to improve corporate behaviour lies at the core of the SRI industry as it has developed over the years (Schepers & Sethi, 2003; Sparkes & Cowton, 2004). Whereas the rankings in the field of education were never designed to change organisational behaviour, it is clear that in the context of RI, metrics such as RI indices can act as performative tools (Callon, 1998; MacKenzie, 2006) for responsible investors seeking to

engage with companies on issues of concern. Issue specific indices have started to appear in recent years, such as the Access to Medicines Index, which ranks pharmaceutical companies on their efforts to increase universal access to medicines (Access to Medicines Index, 2010). Whilst it is clearly unfeasible to build rankings and indices for every specific issue of concern for responsible investors, the powerful effect of measurement could be used as one of their tools to achieve progress in engagement.

The findings also have implications for careful criteria design by index providers, who will need to balance the requirements of investors for a useable financial product with encouragement of ongoing improvements in responsible corporate behaviour through the index criteria. Further research could explore the practical and ethical implications of this delicate balancing act undertaken by index providers. The current exploratory study is limited in scope and can point to trends in organisational responses only. Additional research is also needed to further test these trends in company responses to external measurement, investigating for example if this can be explained by company characteristics such as size, industry sector or exposure to external stakeholder demands through engagement by responsible investors. This type of research has the potential to add significant insights to the nascent literature that explores the influence of external rankings on organisational behaviour.

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Table I Interview participants

No	Designation	Industry	Country
1	Investor Relations manager	Financial	US
2	VP Public Affairs	Manufacturing	Norway
3	CR Manager	Retail	New Zealand
4	Director Investor Relations	Manufacturing	Belgium
5	CR Manager	Construction	Switzerland
6	CR Manager	Telecom	UK
7	CR Manager	Utilities	Austria
8	Head Investor Relations	Financial	Greece
9	Company Secretary	Services	UK
10	CR Manager	Utilities	Australia
11	Director Communications	Transport	UK
12	CR Manager	Manufacturing	France
13	Head CR	Telecom	Sweden
14	HS&E Manager	Manufacturing	UK
15	Director CR	Oil and mining	UK
16	Director Communications	Manufacturing	US
17	HS&E Manager	Retail	US
18	Director CR	Manufacturing	Finland
19	VP CR	Financial	US
20	CR Manager	Financial	Denmark

ⁱ The FTSE4Good index series consists of four tradable and five benchmark indices, representing Global, European, US, Japan (benchmark only) and UK markets. The FTSE4Good benchmark indices include all companies that meet the FTSE4Good criteria. The tradable indices cover the largest 50 or 100 companies in the benchmark index. Companies are selected from 5 existing equity indices (FTSE All World Developed, FTSE All Share, FTSE USA, FTSE Japan and FTSE Europe) to compose the eligible universe of companies from which companies in the defence, nuclear power and tobacco industry are excluded. The remaining companies are then screened in order to select only those that comply with inclusion criteria. This screening is done by an external social research agency, EIRIS. It then adjusts for market capitalisation by taking into account the number of shares that are free float on the stock exchange and capping the relative weight of individual company shares at 10%. The index is updated in March and September to reflect changes in companies' corporate responsibility performance. See index rules at http://www.ftse.com/Indices/FTSE4Good_Index_Series/Index_Rules.jsp

ⁱⁱ Although benchmarking practices would seem more relevant to the Dow Jones Sustainability Indices, which have a relative element, the interview data suggests that managers compare all indices, including the FTSE4Good Index series, to find out which peers or competitors are listed.