Governing Responsible Business Conduct through Financial Markets? The Case of French Socially Responsible Investing

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Puzzle

Continuous growth of the French SRI market despite the changing political colour of governments during the whole period and the financial crisis of 2008.
Puzzle

- Because SRI aims at transforming corporate behaviour through the mobilization of investors, the French SRI case constitutes an ideal context/case to investigate the government of ‘responsible’ business conduct through financial markets.

- Although the CSR/SRI field is seen as a space within which some of the most innovative regulatory technologies are developed (Levi-Faur 2005: 21), little research has explored how governments shape CSR behaviour within—an potentially through—the financial marketplace.

  - Critical CSR: SRI as financialization or the expression of a neoliberal mode of governance (Shamir 2008; Vallentin/Murillo 2012) that marks the retreat from the state (Banerjee 2010)

  - Political CSR: analysis of the role of government in CSR ‘self-regulation’ (Gond, Kang & Moon 2011; Knudsen et al. 2015) yet little attention paid to the financial markets (Scherer et al. 2016) despite the idea that financial markets could be used to promote CSR ideals (Marti & Scherer 2016)

How do governments shape business behaviour through their interventions within/through the financial marketplace?
Theoretical framing: The Government of CSR

Recognition in the PCSR literature that CSR is a form of ‘self-government’ ‘governed’ by institutional, political and local factors.

- Prior studies identified empirically forms of CSR regulations (e.g. Steurer et al. 2012); compared the government of CSR across national contexts (e.g. Knudsen et al. 2015) proposed typology of CSR-government interactions (e.g. Gond et al. 2011) ➔ strategic role of the national government in the promotion of specific CSR practices (Moon & Vogel 2008).

- But: (a) little insights about interactions of governmental interventions; (b) overlooked importance of financial markets as a regulatory space; (c) little insights about how national regulations interact with transitional regulative dynamics in the CSR space.

➔ Three assumptions to explore how governments shape SRI markets:

- Regulative complexity. The new capitalist order is characterised by the explosion of regulations; governments are still ‘very much involved’

- Governmental ambidexterity. No unilateral shift. Reliance on the distinction between ‘steering’ and ‘rowing’ (Osborne & Gaebler 1992; Levi-Faur 2005) Governments can both steer and row, and de-regulate and/or re-regulate.

- Transnational embeddedness. Governments operate within a ‘transitional space’ that can help develop national regulations.
Research Design, Method and Data

- **Context and design**
  - Focus on the French SRI market over the last 20 years (1997-2017). In 2015, €746 billions AuM subjected to at least one ESG criteria – €322 billion of you adopt a stringent definition of SRI
  - Regarded as a successful case of ‘mainstreaming’ (Crifo & Mottis 2016)

- **Data sources**
  - 76 interviews with key actors conducted between 2000-2017
  - Participant observation and ethnography by one of the co-authors (SG)
  - Secondary data: newspaper articles, institutional information, prior studies

- **Data analysis**
  - Temporal bracketing (Langley 1999), construction of a detailed chronology
  - Identification of all the forms of governmental interventions
  - Typology and classification of these interventions – use of the steering / rowing distinction, then refinement of the typology: (a) regulatory steering; (b) indirect rowing; (c) micro-steering and (d) trans-nationalizing
  - Reconstruction of a narrative showing the succession of interventions and theorizing their emergence, shifts and progressive connection
|-----------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| **Regulatory steering** | **Main actions** | • Law on voluntary employee savings requires AMs’ disclosure of E&S information  
• NRE law requires E&S disclosure for listed companies (2001)  
• Creation of a public pension fund (FRR) with E&S disclosure requirements and creation of the ERAPF | • Economic Modernisation Act affirms the role of CDC as a ‘long-term investor’  
• IRCANTEC public pension scheme is to be managed by the CDC  
• Application decrees of Articles 224 & 225 of the Grenelle II Law (2012) | • MoE conference and ‘roadmap’ outlining that an ‘a public SRI label’ will be developed & follow-up white paper suggesting that that this label can help finance the ‘ecological transition’  
• Green Growth Law Articles 176-VI & 173-IV are introduced (2015) |
| | **Impacts** | • Creation of a ‘voluntary employees savings’ market  
• French MNCs to report on ESG which supports the creation of a market for CSR ratings  
• Trade unions ‘captured’ the SRI topic through their regulatory-designed involvement within employee savings schemes and FRR/ERAPF governance | | |
| **Indirect rowing** | **Main actions** | • CDC invests in Arese and then Vigeo  
• CDC creates its subsidiary Novethic  
• FRR develop its SRI activity  
• ERAPF implements its SRI charter for all AuM | • IRCANTEC signs the PRI and adopts an SRI approach for all assets classes  
• ERAPF and FRR choose AMs and CSR ratings agencies to manage their SRI strategies  
• FRR, IRCANTEC, ERAFP, CDC commit to disclose their carbon footprint by December 2015; and launch of the ‘responsible public administrators network’ (RAIR)  
| **Impacts** | | | • Enrolment of leading AMs and private AOs  
• SRI AMs and AOs committed to support the implementations of the Article 173 |
| **Micro-steering** | **Main actions** | • Creation of the CIES label by trade unions, stipulating that AMs should have internal SRI resources and use diversified ESG information | • Creation of the ‘Novethic SRI label’ that requires full ESG disclosure on portfolio holdings and a cap on derivatives use  
• Design of the Novethic’s ‘Green label’  
• AMs hire internal ESG analysts and diversify sources of ESG information | • The public SRI label imposes a 20% exclusion rate; and emergence of ESG impact reporting  
• ‘Novethic SRI label’ and the ‘Green label’ are discontinued; the two governmental labels (TEEC and SRI) dominates the SRI scene |
| | **Impacts** | • AMs hire internal ESG analysts and diversify sources of ESG information | • AMs (out of 121 applicants) obtain the Novethic SRI label  
• AMs ‘row’ towards the labels’ requirements | |
| **Transnationalizing** | **Main actions** | • Launch of the PRI and of Eurosif  
• CDC, ERAPF and FRR support the PRI launch  
• Leading French AMs sign the PRI  
• French SIF (FIR) became a member of Eurosif | • Launch of the European Transparency Code  
• European UCIT IV regulation on ESG reporting  
• COP21 Paris Agreement December 2015  
| **Impacts** | • Launch of the European Transparency Code  
| | • COP21 Paris Agreement December 2015  
• European Capital Union market project  
• International Award for Investor Climate Related disclosure launched by MoE  
• Creation of a European commission high level expert taskforce on responsible Finance | | |
Contributions, Discussion and Implication

- **Governing CSR: Regulative variety, sedimentation & extension**
  - Show the surprising consistency of interventions, emergence of several interesting patterns: (a) variety of tools and ‘pressure points’ on the market used by the government to develop SRI with distinct foci (corporations ➔ investors); (b) consolidation across cycles of interventions (disclosure) [interventions' complementarities] – ‘legal sedimentation’; (c) use of prior laws to extend obligations and shift the boundaries of CSR regulation
  - Emerging alignment and connections between interventions

- **Enriching the lexicon of governance**
  - Refined typology of governmental interventions—regulatory steering, indirect rowing, micro-steering and trans-nationalizing.
  - Micro-steering through label as an intriguing ‘technology of governance’ blurring private/public boundaries.

- **Navigating between local and transitional forces**
  - Transnational forces as levers for national regulations (COP 21)
  - Projection of local regulation in the transnational regulatory space