Encouraging Investors to Enable Corporate Sustainability Transitions:

The Case of Responsible Investment in France

Patricia Crifo
University Paris Nanterre Economix, École Polytechnique, France
& CIRANO, Montreal, Ca
Ecole Polytechnique, Departement of Economics
ENSAE , 4 avenue Henry Le Chatelier 91120 Palaiseau France
patricia.crifo@polytechnique.edu

Rodolphe Durand
HEC Paris, France
durand@hec.fr

&

Jean-Pascal Gond
Cass Business School
City, University of London, UK
106 Bunhill Row, London, EC1Y 8TZ
jean-pascal.gond.1@city.ac.uk

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Abstract

This paper studies the case of the socially responsible investment (SRI) industry in France. This case accounts for how the SRI category and practices have successfully moved from the margins of the industry in the late 1990s to become mainstream over two decades. We bring to the forefront the importance of three complementary factors in the process of causing corporations to transition toward more sustainable businesses: *the role of investors* and, in particular, institutional investors; the importance of the *presence of a clear category definition and of intermediary organizations,* providing ratings, scores, and other calculative devices; and the *role of governments and regulators*. With other studies, this case stresses the fundamental influence of investors in how corporations manage sustainability transitions.

Keywords

Responsible investing – Sustainability transition – Investors – Category – Calculative devices – Public good

According to prior research, there are two main means by which firms transition toward sustainability. First, firms can develop voluntary programs to reduce emissions and other negative externalities (Crifo & Forget, 2015). However, the impact of these programs is local and limited and leads to suspicions about the true motives and actual effects of these policies (Delmas & Toffel, 2008). Second, regulation at the country, regional, or even global level constrains firms in their behaviors and helps to protect areas and populations against negative externalities, as well as promoting alternative production modes (Crifo & Sinclair-Desgagné, 2014; Sine & Lee, 2009; Georgallis, Dowell, & Durand, 2018). However, regulation can lead to unintended consequences, introduce competitive biases, and result in strenuous negotiation processes, as recently illustrated by the United States' pause in the COP 21 Paris Agreement. Beyond these two classic and imperfect approaches, a third has emerged relatively unnoticed: *transition as the result of institutional investors' investment policies*. This paper sheds light on this trend and, through an illustration, reveals the conditions under which it operates.

Institutional investors play a major role in transitions toward sustainability (Davis, 2009; Useem, 1996), as they actively orient corporations' goal functions and theories of value (Arjaliès & Durand, 2019; Clark & Hebb, 2004; Crifo & Rebérioux, 2016). These investors push toward categorizing firms' strategies as "green", "alternative", or "socially impactful", sending signals that the investors value these investments and scrutinize their multidimensional impacts (Dimson, Karakaş & Li, 2016; Gond et al., 2018). Furthermore, the development of Environmental, Social and Governance (ESG) criteria through rankings and assessments provides justification for investment decisions and presses firms to communicate their policies with regard to air and water pollution, diversity and human resource management, and decision making (Guthrie & Durand, 2008; Slager, Gond & Moon, 2012). Although the current proliferation of ESG ratings can confuse corporations, as well as investors, regarding how to prioritize specific social and environmental issues and these ratings cannot be equated with an actual improvement in corporate sustainability outcomes (Chatterji et al., 2016), the ratings provide investors with the means to push corporations toward the adoption of ESG management processes and the implementation of sustainability strategies (Delmas, Etzion, & Nairn-Birch, 2013). Therefore, the pressures exercised by shareholders in the context of financial markets—and in particular pressures from institutional investors—dramatically influence whether listed companies engage in sustainability transitions (Ioannou & Serafeim, 2015). Despite their considerable influence, there has been little research on why and how institutional investors adopt policies favorable to ESG and sustainability transitions (Dimson et al., 2016).

In this paper, we focus on the case of the progressive mainstreaming of the "socially responsible investment" (SRI hereafter) industry in France (Arjaliès, 2010; Crifo & Mottis, 2016; Giamporcaro & Gond, 2016). SRI can be defined as a set of investment practices (Kurtz, 2008) that consider nonstrictly financial criteria in decisions on whether to acquire, retain or dispose of a particular investment (Cowton, 1999, p. 60), and these practices typically consist of including ESG criteria in investment processes (Eurosif, 2016; Yan, Ferraro & Alamandoz, 2018). According to Yan et al. (2018), we have witnessed a considerable increase in the number of SRI funds created globally between 1970 and 2014, and this phenomenon reflects a search for compatible financial and social logics. France, together with Norway, the United States (US) and the United Kingdom (UK), has emerged as both an early adopter of SRI and one of the most flourishing SRI industries over the last twenty years (see: Yan et al., 2018, p. 14).

The specific organization of the "state-influenced market economy" (Schmidt, 2003, 2016), such as the French national business system (Hall & Soskice, 2001; Whitley, 1999), allows for better specifying the roles played by a national government in the process of SRI industry mainstreaming and sustainability transitions. Indeed, in contrast with "liberal market economies" (Hall & Soskice, 2001), such as the US, within which stakeholders play out their interests within a set of governmental institutions (Baron, 2012), state-influenced market economies similar to that of France have "a more influential state and a more hierarchical logic of interaction between firms, labor, and the state than in liberal market economies" (Schmidt, 2016). Accordingly, government and governmental entities in such institutional contexts can be approached as stakeholders on their own, with their own strategic agendas in relation to corporate social responsibility (CSR) or sustainability issues (Knudsen & Moon, 2017), above and beyond the pressures exercised by stakeholders in governmental arenas.

Our case analysis reveals three complementary conditions or drivers that together orient companies to (gradually) transition toward more sustainable business models. First, institutional investors should devote sufficient assets to emerging product categories. Second, there must be sufficiently clear market categories (what SRI is and what it is not) and an optimal number of market intermediaries (e.g., rating agencies, Nongovernmental Organizations—NGOs hereafter). Third, entities dealing with the public good—in our case, the government, operating as a unitary stakeholder—should play a decisive role in the market through successive regulations. Relying on the case of France, our analysis documents how those three conditions were at play and influenced the transition toward more sustainable business models. This complementarity created a "tipping point" within the financial markets that proved to be an effective lever of companies' sustainability transitions by creating synergies and causing the marginal contribution of one type of actor to increase with the contributions of others. As a whole, our study therefore illustrates how these three specific conditions have determined the process of sustainability transition and its unfoldment over time along the four main phases (initiation, early adoption, diffusion, standardization) identified in Delmas, Lyon and Maxwell (2019).

The Case of Responsible Investment Mainstreaming in France

The development of the SRI markets in France illustrates a successful sustainability transition in a specific institutional context that allows for conceptualizing the unique role played by government within the financial marketplace (Schmidt, 2003, 2016). Over the last 20 years, the French asset management industry—the third largest in the world after the US and the UK—has shifted toward the adoption of sustainable, responsible investing practices. In 2015, the total assets under management (AuM) for funds including investments that integrated at least minimal reference to ESG criteria had risen to €746 billion in France, and among these assets, AuM of more strictly defined SRI funds amounted to €322 billion (Novethic, 2015). These figures indicate that SRI has moved from the margin to the mainstream, as in proportion to the total AuM in the French market, the share of SRI represented approximately 1% in 2007, 5% in 2011, and 18% in 2014.

For these reasons, the French SRI industry has frequently been described as one of the most dynamic and successful European markets (see: Eurosif, 2016, 2018; Novethic, 2015) in terms of growth and profitability (Eurosif, 2016). Crifo and Mottis (2016) identified several signals suggesting that SRI was on its way to influence the French financial marketplace overall. For instance, an increasing number of French traditional institutional investors (i.e., solely focused on financial performance) have integrated SRI criteria not only into their dedicated SRI funds but also into their other conventional funds. In 2009, 63% of French conventional funds in terms of assets had already integrated at least one SRI criterion (Crifo & Mottis, 2016). In 2018, out of 439 SRI funds representing 144.4 bn of AuM, 150 (34%) can be regarded as “high-impact”, i.e., centrally focused on SRI (Novethic, 2018).

As such, in 2018, France remains among the most developed SRI markets in Europe with more than 50 asset managers and asset owners, with a growth rate of approximately 55%

in AuM for the 2011-2015 period. Among the variety of asset owners (who in total own 90% of assets in the French market), insurance companies were the main contributors to this growth in the French SRI market (Novethic, 2017). Two responsible investment strategies dominate the market: ‘best-in-class’ and ‘ESG integration’ accounted for more than €300 billion each out of the €746 billion in the market (Novethic, 2017). In the even more recent period, we have witnessed a significant increase in “sustainability and environmental-themed strategies” (as defined by Novethic, 2017), stimulated by actions from the French government. COP 21 and the reporting obligations arising from Article 173 of France’s Energy Transition Law prompted this phenomenon, with many investors committed to engagements to integrate climate-related issues into their investment policies. The most popular themes are, in order of importance, “renewable energy”, “water management”, and “energy efficiency.”

This current state of development of the French SRI market contrasts with the relatively low level of adoption of responsible investment practices by asset managers and pension funds in France in the 1980s and the quasi-absence of investment firms offering SRI products until the mid-1990s (Gond & Boxenbaum, 2013). In 1997, only seven SRI funds were commercialized in France, reaching barely €200 million of AuM (Muet et al., 2002); these funds were offered by a handful of pioneering asset managers (Déjean, 2005; Déjean, Gond & Leca, 2004). In 2015, the French marketplace counted 50 SRI fund suppliers commercializing almost 400 different SRI funds. Figure 1 provides an overview of this rapid development of the French SRI market between 1990 and 2016, showing the evolution of the number of SRI fund suppliers and SRI funds, as well as the total amount of assets managed under “socially responsible” criteria.

INSERT FIGURE 1 ABOUT HERE

This development has attracted academic attention. Prior studies have characterized the national specificity of the French SRI market in contrast with that of the US market (Louche & Lydenberg, 2006), identified the factors in its take-off in France in the mid-1990s (Déjean et al., 2004, 2013; Gond & Boxenbaum, 2013), accounted for its logical development (Arjaliès, 2010; Giamporcaro & Gond, 2016), uncovered the invisible network of friendship relations that regulate market functioning (Penalva Icher, 2010) and unpacked how the SRI product category became contested, recognized, and accepted (Arjaliès & Durand, 2019; Crifo & Mottis, 2016). Most academics' and practitioners' accounts of the French SRI market converge on a few central features. First, French SRI practices are mostly based on "positive" or "best-in-class" approaches, consisting of selecting the most socially responsible companies in an industry rather than "negative screening"—which consists of selecting corporate stocks on the basis of religious or ethical criteria (Gond & Boxenbaum, 2013). Positive screening practices better fit standards of financial investment processes than negative screening practices since these positive practices do not require eliminating complete industries from the investment universe and hence do not jeopardize the need for risk diversification across multéiple industries, which is essential to portfolio management (Arjaliès & Bansal, 2018; Déjean et al., 2004). It is therefore unsurprising to see the French market described in the last European study of SRI as "the undisputed leader in the best-in-class approach with a CAGR [*Compound Annual Growth Rate*] of 36% since 2013" (Eurosif, 2016, p. 12).

Second, unlike other European SRI markets and reflecting the traditional 'state-centered' organization of its national business system (Schmidt, 2016), the French SRI market has always been dominated by relatively "central" or "mainstream" asset owners such as the Caisse des Dépôts et Consignation (CDC),[i] and these asset owners are closer to the government and regulators rather than to peripheral actors (Crifo & Mottis, 2016; Déjean et al., 2004). This point was made clear in the 2016 Eurosif study:

> The French responsible investment market was primarily boosted by state-linked asset owners like the French Reserve Fund (FRR), the French civil servants complementary pension schemes (ERAFP and IRCANTEC) and the Caisse des Dépôts [*CDC*]. Over the last two years, growth in the French SRI market was again driven by asset owners and specifically by private and mutual insurance companies. Institutional investors today hold approximately 90% of SRI assets. Insurers have spearheaded the growth of the French market and represent more than 60% of SRI assets with total AuM of €465 billion in 2015. They have generated 55% of the increase in the volume of Responsible Investment in 2015. (Source: Eurosif, 2016)

SRI has indeed been either pioneered or imported by actors with work connections to state-owned and/or mainstream public financial institutions, such as the Caisse d'Épargne or the CDC in France (Gond & Boxenbaum, 2013). Third and finally, the concomitant creation of the SRI product category and the design of new calculative devices and practices (social ratings, quantified ESG indicators, labels) shaped the emergence and sustained the development of this market. Multiple indirect and direct governmental interventions channeled the discussions among opposed asset managers (Arjaliès, 2010; Crifo & Mottis, 2016; Giamporcaro & Gond, 2016) to eventually lead to the unification of multiple SRI definitions and labels by the end of 2016. Today, there exists only one 'official' definition of SRI in France, which is posted on a website under the control of the Minister of Finance:

> SRI is a form of investment that aims to reconcile economic performance with social and environmental impact by financing companies and public organizations that contribute to sustainable development, whatever their activity sector. The SRI label, attributed through a strict labeling process led by independent organizations, is a unique milestone for savers who wish to participate in a more sustainable economy. (Source: www.lelabelisr.fr)

Missing from this prior research on SRI in France, however, is an analysis of how these multiple factors interact and complement each other to explain the recent explosion of the French SRI market. Investigating the mainstreaming process of the French SRI market as a whole offers a unique opportunity to address this gap by reflecting on the conditions that cause institutional investors to be a hinge around which transitions toward sustainability revolve. By collecting so much savings and money and orienting via their funds toward certain objectives, institutional investors influence how listed firms attend to and act on critical evolutions and trends. In the next section, we isolate four key periods in the process of recent French SRI development: *initiation* (1997-2001), *ramping up* (2002-2007), *intensification* (2008-2012) and *standardization* (2013-2018). Each period corresponds to a shift in one or several of the three key indicators reported in Figure 1 and thus captures actual changes in the diffusion of sustainability practices among French institutional investors. We describe each period in turn, specifying the roles of key stakeholders and particularly the French state, in contrast to other institutional contexts such as the US, and in another section, we report on the combination of key conditions that made this evolution possible.

Initiation (1997-2001): Category Definition and Calculative Devices

The emergence of sustainability transitions within the finance industry and in institutional investors' asset management divisions more precisely started with the creation of a new market category and the implementation of corresponding practices (Durand & Khaire, 2017). Rather than emerging from the periphery of the industry through the impulsion of activists, as in the US (Markowtiz, 2007), in the mid-1990s, different actors from the financial community created the SRI category to fit their interests and the cultural context. Some mainstream French investors observed in SRI a way to develop a new financial product and thus to sustain the growth of their markets (Déjean et al., 2004). Others regarded SRI as a way to render acceptable the financial management of employees' savings money or civil servants' pensions in the eyes of French labor unions, which were traditionally opposed to the world of finance (Gond & Boxenbaum, 2013). Accordingly, SRI funds were in fact presented in France and Europe under the premise of financial performance from the very beginning, with a much more pragmatic definition of SRI emphasizing the equal importance of the financial and extrafinancial aspects (Louche & Lydenberg, 2006). Unlike Anglo-Saxon countries, in which SRI originally developed mainly for ethical and religious reasons

(Markowtiz, 2007), SRI in Continental Europe, and especially in France, followed from the start a financial approach based on the development of positive screening methods relying on ESG criteria under the impulsion of labor unions in close relation with governments (Crifo & Mottis, 2016; Eurosif, 2012).

The pioneering ESG rating agency Arese, a firm funded by the leading cooperative bank Caisses d'Épargne and then cofinanced by the CDC, played a key role in this process. Arese drastically adjusted the US-based SRI category system and practices to the local context. In the mid-1990s, French investors considered the SRI category to be morally imbued and nurtured by American idiosyncratic religious and political factors, and as such, they rejected it: the legacy of the Quakers' philosophy and of the civil rights movements could hardly be exported intact to another country (Gond & Boxenbaum, 2013). Geneviève Férone, then CEO of Arese, and her team of analysts strategically downplayed the moral and religious connotations of SRI, focusing instead on organizations providing ESG data, such as Kinder Lydenberg and Domini (KLD). Loosely inspired by this model, they proposed to investors and fund managers a "neutral" and "objective" ranking based on 50 criteria assessing the environmental and social dimensions of all major French companies. Arese's value proposition to asset managers was to choose stocks and investments that would enhance their funds' long-term performance based on sound, quantified indicators (Déjean et al., 2004).

Arese not only helped to create the SRI category (Durand & Khaire, 2017) but also offered French asset managers a justification for selecting the most "socially responsible" stocks. This rating system quantified ESG issues according to five categories corresponding more or less to stakeholder groups (community and civil society; corporate governance; clients and suppliers; shareholders; and hygiene, safety and the environment) and according to three levels of analysis (leadership, deployment and results). The final ratings from Arese ranged on a five-point scale from "– –" (for "unconcerned companies") to "+ +" (for "pioneers"), and the whole process of rating involved the systematic analysis of multiple quantified criteria. Although inspired, albeit loosely, by the approach developed by KLD in the early 1990s, Arese's system focused more on quantification being "serious and close to the traditional financial methodology" (Déjean et al., 2004, p. 753) and offered scores on multiple dimensions that could be easily used to adopt a "best-in-class" approach to SRI (Arjaliès, 2010). In contrast with KLD (see: Delmas et al., 2013; Gond, 2006; Igalens & Gond, 2005), Arese's ratings did not distinguish between strengths and concerns in relation to social issues (i.e., "good" vs. "bad" behaviors) and were not mainly derived from media information. Arese's ESG criteria were straightforwardly built to assess the quality of stakeholder management, quantified through a scoring system inspired by Total Quality Management (TQM) techniques (particularly the European Framework for Quality Management, a quality management standard also known as EFQM), and Arese's analysts used all of the available quantified information about employees and the environment that could be obtained through the French "Social Report" (*Bilan Social*) published by corporations or through quantified datasets from the Ministry of Environment (Gond, 2006). Arese's promoters firmly advocated for a "best-in-class" approach to ESG ratings and rejected the production or selling of exclusionary criteria (which then represented a source of revenue for agencies, such as KLD), which they regarded as morally and religiously connoted.

Déjean et al. (2004) showed how the development of Arese's ratings helped French investors to experiment with SRI funds and enabled the take-off of the market category between 1997 and 2001. Arese's quantified approach was amenable to designing new SRI products, and fund managers could more easily "sell" internally the idea of launching such funds. In addition, Arese's ratings contributed to legitimizing the SRI category and the notion of SRI funds more broadly in the eyes of then-skeptical asset managers. Although only 4 of the 12 existing SRI funds (33%) used Arese's ratings in 1998, 34 of the 42 SRI funds (85%) relied on these ratings in 2001 (Déjean et al., 2004).

This initiation stage was definitely characterized as 'experimental' by fund managers (Déjean, 2005) and as the "garage phase" by analysts and specialists in social rating (Gond, 2006). Geneviève Férone concurred: "let's be honest: we shared the same learning curve as our first customers; they helped us to test, refine, and validate our method" (Interview, 2002). Although, retrospectively, the 1990s appeared to be a period of timid take-off in light of the subsequent development and scaling up of the SRI market in France (see Figure 1), we nevertheless witnessed during this period an important institutional shift in parallel with the creation of the category and the first social ratings.

This attention to long-term investment manifested itself also in the legal environment. Notably, a new law greatly influenced the subsequent phase of market transition, as the law directly promoted long-term investing and SRI in the French market. More precisely, in 1999, the French government created a Pension Trust Fund (*Fonds de Réserve des Retraites,* hereafter FRR, to be effective in 2001), the investment policy of which had to follow SRI principles.

Mainstream investment managers had new incentives to adopt responsible investment practices if they wanted to capture a share of the vast amounts of money collected to secure the French population's pension payments. This movement was backed by the rapid rise in institutional investors, both in France and the US, driven by the globalization of capital markets and the increasing concentration of household savings in investment funds. Although cross-shareholding between major nonfinancial companies remains far more prevalent in France than in "liberal market economies" such as the US, there was a considerable increase in institutional investors' involvement in their governance: by the end of 2003, nonresident investors owned 43.9% of the outstanding shares of CAC40 companies and almost 35% of the shares of all listed companies (Crifo & Rebérioux, 2016).

In summary, although SRI in the late 1990s and early 2000s was not yet a mainstream practice in France, several favorable conditions already existed: the product category had be defined; intermediary organizations such as Arese, supported financially by financial investors close to the government (CDC, Caisse d'Épargne), offered means to evaluate ESG policies; several credible investors launched SRI funds; globalization of markets led to a considerable increase in institutional investing; and governmental action provided incentives for such powerful investors to responsibly manage their funds in this market.

Ramping Up (2001-2007): The Role of State Support

The second stage of the transition process was characterized by the rapid intake of new adopters and products, corresponding to nearly effective consolidation of market development. The number of SRI fund suppliers increased steadily from 2001 to 2007 to reach 60, as did the number of SRI funds (from 89 to 175) and the SRI AuM (from 3 to 20 billion euros). Three factors explain this market growth. First, the SRI market category strengthened between 2002 and 2007. Nicole Notat, the newly retired head of the largest French union (CFDT, French Democratic Confederation of Labour), launched a new social rating agency. Her project was soon coopted by Arese's shareholders, who decided to merge Arese's and Notat's projects to create a new company, Vigeo, the mission of which was to rate even more firms based on more indicators at the European level. Thanks to her prominent unionist background, Notat mobilized her close relationships with some influential CEOs and political elites to enroll numerous French listed companies and the main French asset managers and trade unions in the Vigeo project (Giamporcaro & Gond, 2016). This move positioned the ratings agency closer to the French centers of power, legitimized SRI as a market category worth investing in, and explains why French investors kept referring to it over this period: in December 2007, 58% of all SRI funds used Vigeo's scores.

During this period, Vigeo also revised its ratings methodology to consider six dimensions (human rights, environment, human resources, business behavior toward customers and suppliers, corporate governance, and community involvement) based on a new model (called "equitics"), which contributes to reinforcing the SRI product category toward more mainstream methodologies (compared to the previous five domains rated by Arese). This new methodology provided better congruence between processes and outcomes of CSR-related management practices, reinforcing differences with the US-based KLD model. In fact, a study based on secondary data from a French national survey on organizational practices (COI survey) showed that the quantitative metrics (outcomes) of CSR-related management practices seemed to convey similar information to the qualitative evaluation of CSR management processes from Vigeo (Crifo, Diaye, & Pekovic, 2016). Matching both databases, Crifo et al. (2016) examined the consistency between the two measures of CSR (management processes vs. outcomes) and found that companies with "high" Vigeo ratings implemented more CSR-related practices than companies with "low" Vigeo ratings, suggesting congruence between the two methods.

Second, the emergence of the SRI market category in France raised attention and interest in competing social rating agencies headquartered abroad that decided to step into the French SRI market, offering new ratings to asset managers to guide their investment policies. Notably, the creation in 2001 of the *Comité Intersyndical de l'Épargne Salariale* (CIES, literally: Committee of the Inter-Union Employee Savings) sponsored a "trade unions' SRI label" for a range of SRI employee savings funds. To obtain the CIES label and therefore be able to collect large amounts of employee savings for reinvestment in their funds, asset management companies had to demonstrate that their SRI funds were professionally managed and respected a series of key principles. Therefore, institutional investors (i.e., banks and insurance companies) created specialized internal teams of ESG analysts to respond to these new demands, prove their deeds, and protect their positions in the market contested by innovative new entrants.

Third, state legislation kept reinforcing the momentum. The FRR's policy, voted for in 1999 in favor of SRI investment, started showing its effects during this period. A second set of laws promoted transparency and richer information for investors about corporate responsibility reporting. In a context characterized by increased interest in regulating CSR at the European level (EU, 2001) and the development of a soft law on ESG disclosure with the constitution of the Global Reporting Initiative (GRI) as a global reporting standard (Etzion & Ferraro, 2010), the French government sought to keep its leadership in the domain of ESG disclosure by updating and refreshing 1977's *Loi sur le Bilan Social* (literally: Law on social report) (CES, 1999). This older framework required the publication by corporations of a set of quantified information about the "social" aspects of their activities (Gond, Igalens & Brès, 2013). Article 116 of the *Loi sur les Nouvelles Régulations Economiques* (or NRE law, literally: New economic regulations law) of July 2001 extended this prior legal framework by requesting that all companies listed on the first market (the largest market capitalizations) report on a yearly basis the social *and environmental* impacts of their activities. This law also made the publication of this information part of the core annual report to shareholders, rather than a separate report. Furthermore, new pension laws in 2001 and 2003 established a *Plan Partenarial d'Épargne Salariale Volontaire* (PPESV, literally: voluntary partnership employee savings scheme) and imposed a long-term perspective on savings (10 years). As a result, demand for SRI funds increased even more.

During this period, the US financial markets witnessed the polar opposite trend with assets managed under sustainable and responsible investing resembling a U-shaped curve (decrease and slight increase): from $2.32 trillion in 2001 to $2.16 trillion in 2003, $2.29 trillion in 2005 and $2.71 trillion in 2007. ESG integration even decreased by 20% between 2003 and 2005, with the recovery in the SRI industry figures being due only to the increase in shareholder resolutions (US SIF, 2012).

In summary, SRI in the 2000s became a mainstream practice in France due to several complementary drivers: constraining "hard" regulations from the French government on ESG disclosure, built on the legacy of regulative disclosure on social reporting and reflecting France's state-centered type of capitalism; soft regulation from professional associations; professionalization of rating models; and more importantly, competition from "new entrant" stakeholder groups (in particular, labor unions and other ESG rating agencies) in the social and environmental evaluation industry. At the same time, the US market for SRI witnessed a mixed trend, with episodes of increases and decreases in assets invested under ESG integration.

Intensification (2007-2012): Product Differentiation

During the third phase, we observe that the relatively stable number of SRI fund suppliers started to intensify their offerings and opened many different SRI funds (see Figure 1). Crifo and Mottis (2016) reported that, from 2009 onward, the SRI product category spread within asset management firms—a process sometimes referred to as "ESG integration" or "ESG mainstreaming." During this third period, the number of SRI products increased drastically, as did the volume of AuM (see Figure 1: from 140 funds on average during 2007-2009 to 250 funds in 2012 and from less than 50 billion euros to more than 150 billion euros of AuM).

This intensification of SRI fund creation generated some ambiguities in the market, and it became difficult to evaluate SRI quality across producers, as well as within each producer's offerings. In parallel, the number of labels and ratings increased as well, and the market's complexity increased even more. Raters shifted their focus of attention. The quantification of corporate stocks' ESG quality receded relative to the evaluation of the funds themselves. This refocus is well illustrated by Novethic's label repositioning. Novethic, a research and media nonprofit organization, an expert in sustainable finance, and a subsidiary of the major state-linked investment bank, had been pursuing the mission of pushing market players toward greater transparency and ESG impact assessment (for a detailed analysis of Novethic's role in the SRI market, see: Giamporcaro, 2006). To this end, Novethic developed several certification schemes in 2009 to assess SRI funds in terms of ESG criteria. Over the years, several hundred funds applied to obtain Novethic's certification, and more than 300 funds offered by more than 40 asset managers (out of the 60 operating in France) were awarded this label. Emanating from an independent third party, the Novethic label signaled to investors in which SRI funds to preferably invest.

During this phase, the precedent laws favoring SRI came into play to support market growth and the sustainability transition: more savings had to be invested in these products. In addition, in 2011, the Grenelle II law extended the reporting obligation on ESG dimensions to two types of actors: nonlisted, large French companies with more than 500 employees and French subsidiaries of foreign companies (Article 225) and asset managers and open-end investment companies (Article 224). This law also expanded the range of information required from all economic actors and requested more external verification to feed the businesses of rating agencies and market intermediaries. In addition, the government announced in 2012 its intent to create a new SRI label, and this fact probably shaped market actors' expectations in relation to the future growth of the French SRI market.

In the US, the increase in SRI was also vibrant, with total SRI assets of $3.74 trillion in 2012, a 56% increase since the end of 2009 (US SIF, 2012). However, a number of differences remained in the US industry, particularly regarding the criteria under scrutiny. In the US, governance criteria (e.g., executive pay and board issues) remain the core ESG issues for institutional investors, whereas these criteria play a less prominent role (and limited to corruption) in the disclosure requirements of the Grenelle II law, for instance. In France, the role of third-party organizations' auditing ESG disclosures was also reinforced since the new reporting obligations required external certification.

In summary, the intensification stage in the context of SRI market development was not so much about the growth in the number of SRI suppliers than about the diffusion of ESG practices within asset management firms, resulting in the multiplication of the number of SRI products. Once again, a specific category of stakeholders central to the state-focused French national business system played a leading role. State-linked asset owners, such as major pension funds and complementary pension schemes, and the actions of the major public investment banks bolstered the SRI industry[ii]: very large amounts of savings were collected from civil servants' wages for savings and future pensions that had to be invested responsibly, and labels, standards, and ratings multiplied both at the fund and asset manager levels. The SRI market became complex in an environment in which legal pressure intensified, requesting ESG information from an increasing number of corporations.

Standardization Stage (2013-2018): Reducing Market Complexity

As the legal consolidation of SRI was under way through prior governmental interventions, this most recent phase marks an almost exponential inflection in the number of products and AuM: from 250 funds to 400 and from €200 to €322 billion in AuM (see Figure 1). This surge coincided with the weight of institutional investors in the market, and these investors held approximately 90% of SRI assets in France in 2016. Insurers spearheaded the growth in the French market and represented more than 60% of SRI assets in 2016. They generated 55% of the increase in SRI volume by themselves (Eurosif, 2016).

Furthermore, to channel the growth during this last stage, the state intervened to reduce the proliferation of categories and labels. Indeed, after a series of media investigations, SRI portfolios appeared to contain similar stocks to those in non-SRI funds, casting some doubt on asset managers' practices. The multiplicity of products and labels was obscuring institutional investors' choices and was confusing for retail (small) investors, rendering such labels a tiny commercial stake (Arjaliès & Durand, 2019). Therefore, through two series of multiparty negotiations involving asset managers, NGOs, raters, and governmental representatives from 2013 to 2015, the definition of the SRI category was streamlined, legal frameworks were refined, and a consensus was established. Two new official labels were introduced in 2015—a general purpose label (SRI) and a green purpose label (TEEC)—both supported by the French government and taking over from other private labels, including Novethic's SRI and green labels, which stayed in effect until the end of 2016. The new SRI label was announced by the Minister of Finance in September 2015 during Responsible Finance Week. Two months later, the Energy and Ecological Transition for Climate label (so-called TEEC) of the Ministry of Environment was launched during COP 21. In January 2016, the French government created two certification tools for financial products that integrate ESG criteria.

To qualify for the public general purpose SRI certification, financial products must meet standards defined by the finance ministry. Among other things, a fund must exclude 20% of its initial investment universe on the basis of ESG criteria, or the average ESG rating of a portfolio must be higher than the rating of the benchmark index used to measure its financial performance. Asset managers who seek to obtain the public SRI label for one or more of their products must choose a labeling organization among those that will be approved by the French Accreditation Committee (COFRAC). The label will be awarded for a three-year period, during which follow-up certification audits will be conducted. Based on Novethic surveys, there are potentially 300 SRI funds available on the French market.

The TEEC label is different. It has a green purpose and was created "to spotlight the investment funds that finance the green economy, to spur the creation of new funds and to encourage companies to report the 'green shares' of their activities." The TEEC certification scheme will identify products that genuinely finance activities with measurable environmental benefits and define the eco-sectors in which these products must be invested. These sectors range from transport and renewable energy to waste management and energy efficiency. This label is remarkable because of the exclusions it requires, i.e., activities having to do with "the exploration, production and use of fossil fuels, as well as the entire nuclear industry." The impact of these initiatives on French financial operators will be closely analyzed by the various stakeholders, starting with NGOs, which are wondering whether these labels and reporting requirements for asset owners will be sufficient to mobilize the amount of assets needed to finance the energy transition (Novethic, 2016).

This standardization phase also marked the extension of the disclosure requirements on firms. Article 173 of France's Energy Transition Law of August 2015 now requires that all asset owners and asset managers disclose information about their management of climate-related risks and, more broadly, about the integration of ESG parameters into their investment policies. France is the first country to introduce such disclosure requirements.

In the US, the SRI market has continued its growth (by 30% between 2012 and 2016), but as for the previous period, a large difference with France lies in the ESG criteria under scrutiny by institutional investors: "governance" (executive pay, board issues, conflict risk) remains the dominant criteria, whereas "overall ESG integration" has witnessed a modest increase over the period (US SIF, 2016). The federal decision to withdraw from the Paris

Agreement on climate change also created a major gap between governmental drivers for SRI on the two sides of the Atlantic.

Overall, the institutionalization of the SRI fund category has been buttressed by a series of events: multiparty negotiations led to new public labels that simplify market functioning. The new disclosure regulations intensify the production of ESG-related information, increase transparency, and reduce incentives to greenwash or decouple words from deeds. COP 21 in 2015 placed the notion of finance for carbon transition at the forefront, and the French government followed up with the One Planet Summit in 2017 to promote public and private finance in support of climate action. A second One Planet Summit is expected in late 2018 to evaluate the implementation of public commitments.

Together, these trends have helped to consolidate the intraorganizational diffusion of responsible investing practices within asset management firms and institutional investors and have turned France into the uncontested leader of most ESG investment practices (Eurosif, 2016).

Contributing to a Corporate Sustainability Transition Model: A Decisive Complementarity Between the Three Factors of Interest

Our case analysis provides fodder for the elaboration of the sustainability transition model proposed by Delmas et al. (2019). Our analysis reveals that the institutionalization of SRI in France occurred through the initiation, early adoption, diffusion, and standardization phases distinguished by Delmas (2019), but also sheds light on the importance in this case of the strong complementarity between institutional investors and regulators and market intermediaries—NGOs and ESG rating agencies—identifying new measurement and certification opportunities. Such a complementarity created a "tipping point" within the financial markets that proved to be an effective lever of companies' sustainability transitions.

This notion of complementarity has been used to examine whether and how companies use synergies among multiple dimensions of corporate sustainability to improve financial performance (Cavaco & Crifo, 2014; Crifo et al., 2016). In the context of the SRI market in France, the complementarity between the SRI drivers we identified relies on the idea that the marginal value of one driver (e.g., the dominant role of institutional investors) is increasing relative to the level of another driver (e.g., government interventions). In other words, there is a particularly interesting set of complementarities (i.e., combinations more than additions) among the following three important drivers of the SRI market that caused companies to transition toward more sustainable business models in the French context.

Focusing on Institutional Investors as Influencers of Corporate Behavior

First, not only producers but also investors played a key role in this corporate sustainability transition. In particular, institutional investors have not only contributed to legitimizing SRI but also invested insurance premiums, savings, and pensions into long-term SRI funds. Note that in the mid-1990s, institutional investors were already the major players in the equity market in the US (together with households) and in the UK (along with insurance companies) but not in France or Germany. In these countries, nonfinancial firms had the largest shares of stock ownership, with 42% and 19%, respectively (and less than 1% in the US and UK). However, since then, most continental European countries have experienced an upswing in equity holdings by institutional investors, both national (mainly mutual funds) and foreign (mainly US and UK pension and mutual funds). The case of France is emblematic of a large rise in institutional investors since the late nineties with very stable levels of ownership concentration and the emergence of new activist shareholders (sovereign wealth funds, hedge or private equity funds), counterbalanced by state and employee ownership ensuring the stability of French shareholdings for at least 25% of CAC 40 firms (Auvray, 2018). This evolution is closely related to the liberalization and globalization of capital markets and to the increasing concentration of household savings in investment funds (Crifo & Rebérioux, 2016).

Following this transformation in the equity capital of large, listed European companies, disclosure has been increasingly perceived as a crucial mechanism to enhance managerial accountability. Until the early 2000s in Europe, minority shareholders and investors' rights to information were nonexistent, and no specific regulations disciplined listed companies in terms of reporting and disclosure—except for local markets' listing standards. The dramatic improvement in corporate transparency and disclosure over the last decade across Europe and particularly mandatory CSR reporting in France therefore facilitated French institutional investors' investment orientation and their choices in favor of the SRI fund category.

Therefore, at the core of the model for corporate sustainability transitions, we should not only consider how certain categories are created and adopted by firms but also why investors in and owners of these firms modify their objectives and instantiate different theories of value (Boltanski & Esquerre, 2017; Lamont, 2012; Paolella & Durand, 2016). Since institutional investors have a longer-term orientation than typical actors in financial markets and since they are accountable for the use of the money that they invest vis-à-vis citizens, pensioners or current employees, these investors manage several purposes concurrently: not losing capital; investing responsibly and for the long term; and benefiting their own shareholders. As a result, institutional investors have an overlooked yet central political role to play in sustainability transitions, and more research attention should be dedicated to the analysis of this role, as well as to how investors should be governed to help deliver more sustainable economies. The growing stream of studies dedicated to corporate political responsibility (Frynas & Stephens, 2014; Scherer & Palazzo, 2011, Lyon et al.,

2018) could probably help address this question, but to do so, these studies should move away from their present focus on corporations and multistakeholder dialogues to focus more systematically on the roles played by investors (Scherer et al., 2016).

Interestingly, the role of institutional investors also explains the peculiar and divergent development of the US SRI industry at the same time, particularly the maintenance of its strong focus on governance issues, unlike that of French institutional investors who focus on the broader integration of multiple ESG issues within their investment decision-making processes.

Balancing Market Intermediaries' Diversity and Complexity

Second, since it is typical of the case of category creation (Durand & Khaire, 2017), several market intermediaries (playing the roles of new entrants) contributed to refining the category's attributes and offering calculative devices (metrics and evaluation tools) to position different producers and products (Giamporcaro & Gond, 2016). This process is especially visible in the SRI industry since the development of SRI funds requires integration of ESG information into the investment firms' decision-making processes (Arjaliès & Bansal, 2018), and this information is either produced by ESG rating agencies or disclosed by corporations on a voluntary or mandatory basis. France is an early example of mandatory CSR reporting, with all French listed companies required to disclose ESG information since 2001, and all large companies having to do so since 2011. The amount of available information has therefore been increasing, enabling the entry of multiple participants into this market intermediation.

However, the institutionalization of the SRI category and corresponding practices had a mixed impact in the studied case, reflecting prior insights into the effects related to the multiplication of ESG evaluation criteria (Delmas et al., 2013) and mirroring some of the findings of Wijen and Chiroleu (2018) in the controversy produced by the design and adoption of the Marine Stewardship Council (MSC) certification standard. In our case, the abundant presence of data led to the multiplication of labels and calculative devices (e.g., scoring, ratings, and charts). On the one hand, as observed in related contexts (Reinecke, Manning & von Hagen, 2012), this abundance has some drawbacks and can become counterproductive by eroding each calculative device's power to simplify decision criteria for decision makers (Chatterji et al., 2016; Delmas et al., 2013) and by obfuscating the evaluation of ESG for each actor, creating a form of "field opacity" (Wijen & Chiroleu, 2018): too many discrepant intermediaries obfuscate the reality that they should contribute to simplifying.

On the other hand, as in the case of Wijen and Chiroleu (2018), the multiplication of intermediaries and potentially contradictory ESG evaluations for a same firm comes with its own unintended positive impacts. In our case, this increase provided analysts of asset management firms with incentives to develop their own in-house ESG expertise and to engage directly with corporations having ambiguous ESG scores through more strategic forms of engagement on ESG issues.

Therefore, a condition for an effective corporate sustainability transition might be to "strike the right balance" in terms of the number and type of ESG intermediaries so that there is sufficient convergence in the assessments proposed by market intermediaries and sufficient diversity for asset management firms to strategically exploit the existing gaps in ESG evaluations. Vigeo partly addressed this risk with a methodology that provides informational content about management processes that seem congruent regarding specific matters with the outcome measures of secondary data on CSR practices (see Crifo et al., 2016). Nevertheless, the notion of "impact" rather than "process" remains a crucial stake for the future development of the SRI market. Interestingly, this issue of impact assessment is on the agenda of the scientific committee of the French SRI Label for the coming year.

However, in contrast with the case reported by Wijen and Chiroleu (2018), we found that the controversies surrounding the multiplication of ESG evaluation standards were not only shaped by interactions between NGOs and corporations or a specific intermediary but also by the government's direct and indirect actions. Indeed, the French government was involved in establishing an appropriate balance in terms of the number of ESG intermediary organizations indirectly by supporting some of them through the CDC (Giamporcaro & Gond, 2016) and directly by making mandatory the disclosure of ESG data, thus reducing the uncertainty surrounding ESG evaluations (see Figure 2). This change suggests that 'hard' governmental regulations can operate as complementary, rather than substituting for self-regulatory or industry initiatives and intervening in controversies about standards to diminish the opacity of the market.

Recognizing the Government Role

Third, an enduring factor supported the corporate transition toward sustainability in the French SRI case: the role of the government as promoter of the public good and this role's independence from the political side of running the country for the last 20 years. Several laws fashioned the sector and determined both the context of investments (pension and savings funds) and the expectations of the market actors. Notably, the pension laws created a trust fund (i.e., FRR) with a dedicated SRI policy based on the integration of ESG criteria into investment decision making and portfolio management. The establishment of the CIES interunion 'SRI label' reinforced the importance of CSR criteria since employee savings had to be invested in funds with this label. Eventually, the constant deployment of disclosure requirements about the social and environmental impacts of firms' actions supplemented both the need for data to rate firms and products and the seriousness of the public policy vis-à-vis the multiple challenges posed by mounting socioeconomic inequalities and environmental risks. Accordingly, the French state has to a large extent “encouraged” the development of the SRI market both directly and indirectly and at multiple levels. Such a state-driven approach offers a unique opportunity to investigate in future studies the multiple roles that governments can play to cause sustainability transitions to occur (Knudsen & Moon, 2017). Such a peculiar role of government highlights important differences between market-oriented (liberal) economies such as the US, where capital needs are satisfied by dispersed (minority) shareholders and corporations are disciplined by market-based forces, and more centralized “state-influenced market economies” such as France, within which firms are expected to represent the broader social interests that must be considered as much as those of capital providers and the government therefore is called in (Hall & Soskice, 2001; Schmidt, 2016; Whitley, 1999). Figure 2 represents the three main factors and their interrelationships leading to corporations transitioning toward more sustainable strategies and practices.

This case is all the more interesting since SRI has been accelerating and gaining enormous momentum beyond the French context since the Paris Agreement at COP 21 in 2015. The global challenge of raising the trillions needed to meet the two degrees or less scenario agreed to in Paris in 2015 dictates that this process cannot be driven through either the public or private sector working alone but truly through complementarities and synergies between them. In the UK, the London Green Finance Initiative was established in 2016 to bring these groups together and determine where the UK’s great financial acumen could make its contribution (GFT, 2018). Europe also installed an EU High-Level Expert Group (HLEG) on Sustainable Finance in 2017. The HLEG is an interesting example of involving different and complementary stakeholders in financial reform, including banking, insurance, asset management, stock exchanges, financial industry associations, international institutions and civil society, to elaborate recommendations on concrete measures that the EU can undertake to align one of the world’s largest financial systems with global objectives for sustainability. Among these measures, the HLEG recommends establishing an EU sustainability taxonomy, clarifying investor duties to extend the time horizons of investments and bring greater focus to ESG factors, upgrading disclosures developing official European sustainability standards, and integrating sustainability into the governance of financial institutions as well as in financial supervision (HLEG, 2018). Interestingly, several of the actors who led the SRI development in France over the last 20 years were also part of this influential European expert group. Future research could more closely investigate these institutional dynamics and, in particular, how some initiatives developed in "state-influenced market economies" such as France could diffuse to other types of economies through European institutions.

The recent debates in France in 2018 to redefine the role and missions of companies provided a reinforcing argument on the role of government, together with other influential stakeholders, in driving investors toward corporate sustainable transitions. The French government indeed appointed two teams—one chaired by Jean-Dominique Senard, CEO of Michelin, and Nicole Notat, President of Vigeo-Eiris; and another chaired by Antoine Frérot, CEO of Veolia, and Daniel Hurstel, a lawyer at Willkie Farr & Gallagher LLP—to submit a report in the first half of 2018 proposing legislative changes (the PACTE law to be debated and voted on in late 2018 to early 2019) to allow companies to insert "a mission" into their articles of association.

What the specificity of the case studied in this article demonstrates is the fundamental complementarity of the entities responsible for the public good. In France, for historical and cultural reasons, the central state fulfills this mission but under the contestability of other stakeholders (trade unions, NGOS, and public-private agencies). In other contexts, similar to Canada or the US, different entities also interact to codefine and defend the long-term public good. Our point therefore underscores the necessity to factor in who the actors are contributing to forging what the public good is and what it ought to become, as well as how and how much corporations participate actively or reactively in these debates and public policy decisions. Multiple situations and games potentially exist and must be exposed without disingenuousness on the part of researchers, who must accept neither corporate communications nor public authorities' official discourses at face value.

Conclusion

This paper studies the case of the SRI industry in France. The case analysis emphasizes three important complementary factors that accompanied the development of SRI in France and its influence on corporate transitions toward sustainability (see Figure 2). First, investors, as large influencers of the market, orient the corporations' goal functions and theories of value. Second, a balance must be found between sufficiently clear and accepted market categories (what an SRI fund means and is) and the number of intermediaries that provide the criteria and calculative devices enabling the assessment of category members. Finally, our case vividly portrayed the preponderant influence on the SRI industry's sustainability transition of the entities in charge of defining and preserving the public good—in the case at hand, the central state, contested by very active newcomers to the market. In conclusion, to understand how corporations can be driven to sustainability transitions, we must interpret their transitioning as a complementary set of strategies between institutional investors and governments, with market intermediaries (rating agencies, NGOs) shaping the definition of product categories and legitimizing calculative devices and practices.

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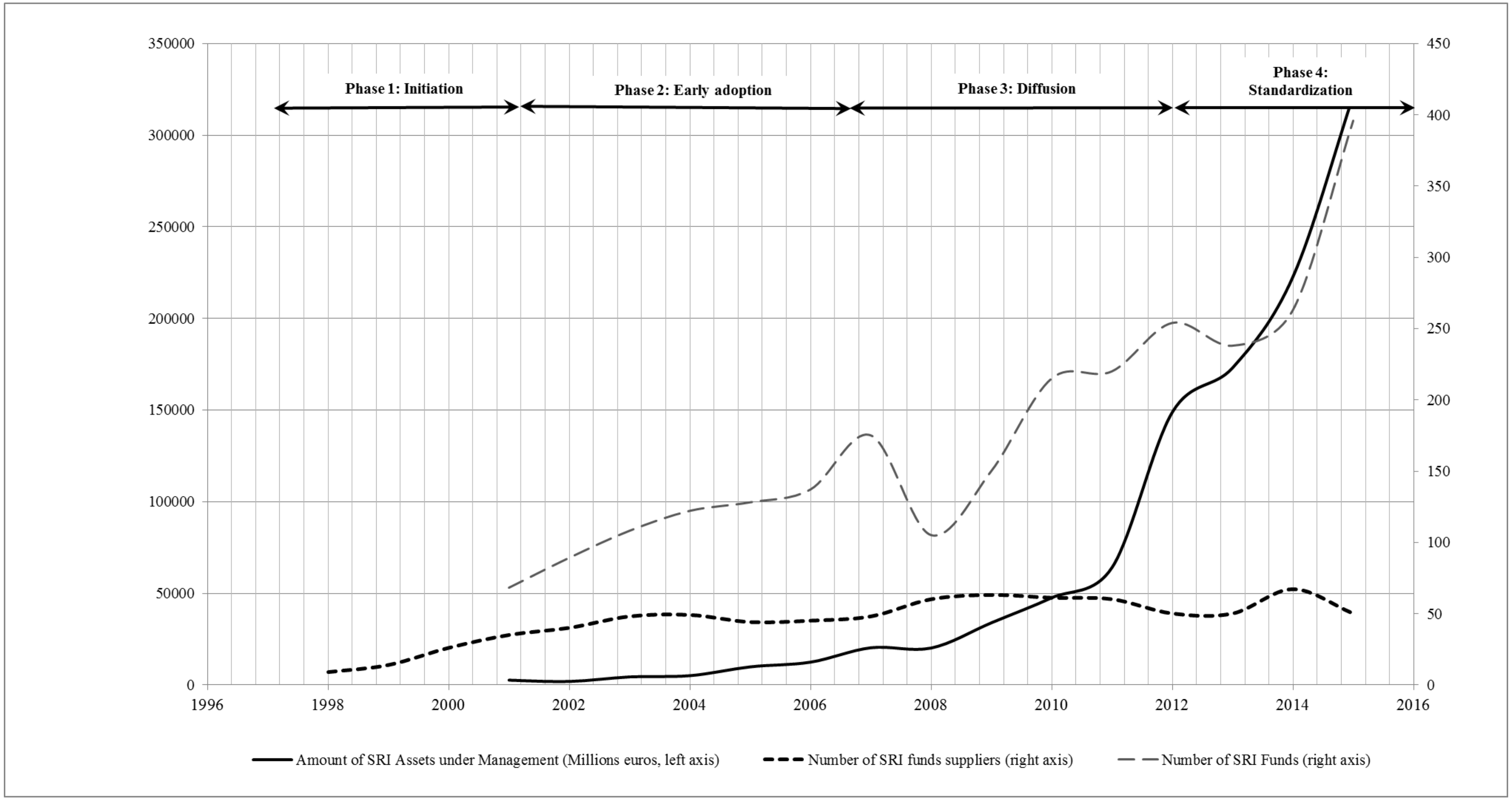
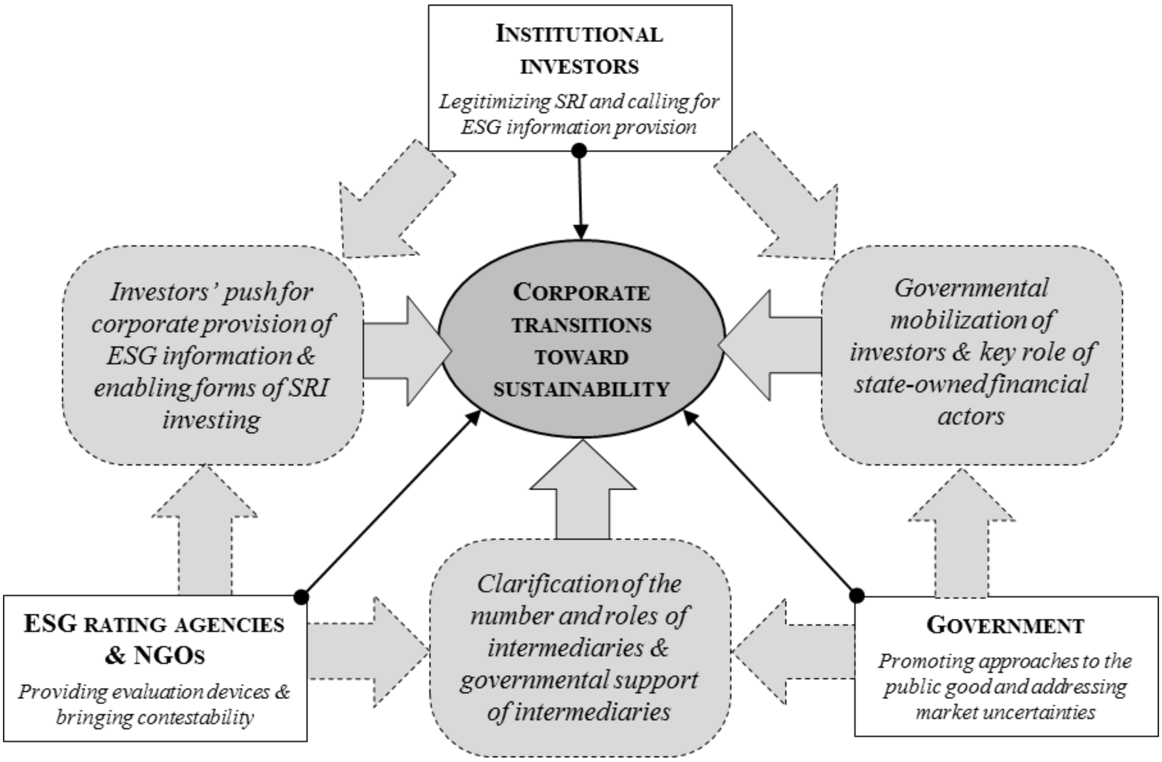
FIGURES

Figure 1. The Development of the French SRI Market (1997-2016)*



** Sources: Muet et al. (2002) for the period 1998-2003, for the period 2003-2015: Novethic and AMF (Associations Française des Marchés Financiers).*

Figure 2. Three complementary conditions for corporate transitions toward sustainability



Endnote

[i] The CDC is a French public sector financial institution that has no strict equivalent in the US. It is usually regarded as the 'investment arm' of the French state, and its head is appointed by the government. According to French law, the CDC's mission is defined as follows: "Caisse des Dépôts et Consignations and its subsidiaries constitute a public group serving the public interest and the country's economic development. The Group carries out missions of public interest in support of the public policies implemented by the State and local government bodies and may also exercise competitive activities […] Caisse des Dépôts et Consignations is a long-term investor and contributes to the development of enterprises in line with its own proprietorial interests" (source: Article L. 518-2 of the French Monetary and Financial Code (amended by the 2008 law on modernization of the economy). The CDC is strategically located at the interface of governmental and financial institutions and plays a key role in the 'state-centered' French economy.

[ii] The sizable boost related to the creation of public pension funds is clear in the proportion of pension funds as a percentage of institutional investors in the French market, which has increased from 4% in 2004 to 15% in 2014 (Source EFAMA).