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# Cass Business School

CITY UNIVERSITY LONDON

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

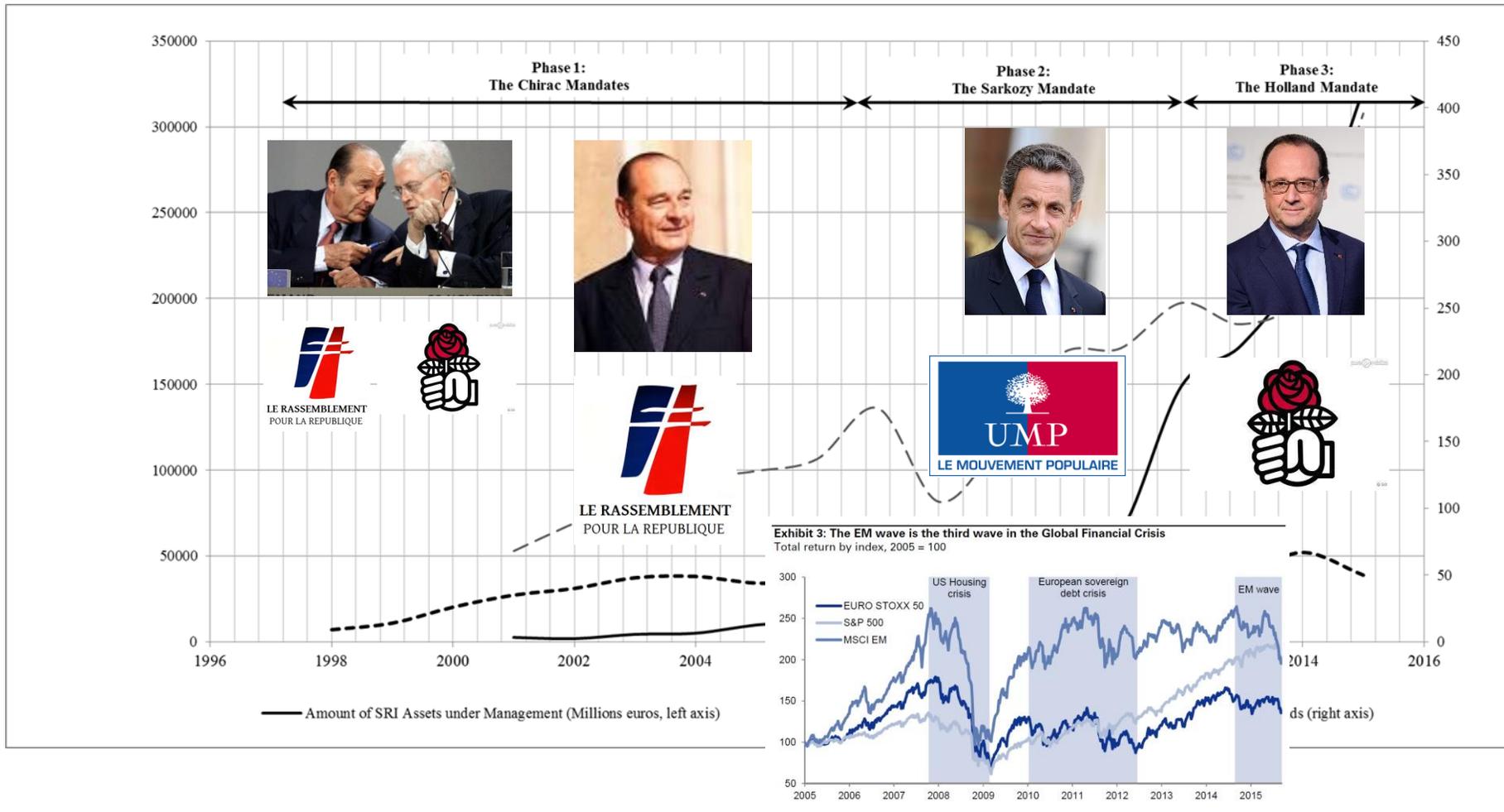
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# Puzzle

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

Forms of Governmental Interventions		The Chirac Mandates (1997-2007): Designing the French SRI regulatory springboard	The Sarkozy Mandate (2007-2012): Regulatory extension and mainstream appropriation	The Holland Mandate (2012-2017): Triggering through regulation the SRI 'big-bang'
Regulatory steering	Main actions	<ul style="list-style-type: none"> <li>• Law on voluntary employee savings requires AMs' disclosure of E&amp;S information</li> <li>• NRE law requires E&amp;S disclosure for listed companies (2001)</li> <li>• Creation of a public pension fund (FRR) with E&amp;S disclosure requirements and creation of the ERAFP</li> </ul>	<ul style="list-style-type: none"> <li>• Economic Modernisation Act affirms the role of CDC as a 'long-term investor'</li> <li>• IRCANTEC public pension scheme is to be managed by the CDC</li> <li>• Application decrees of Articles 224 &amp; 225 of the Grenelle II Law (2012)</li> </ul>	<ul style="list-style-type: none"> <li>• MoE conference and 'roadmap' outlining that an 'a public SRI label' will be developed &amp; follow-up white paper suggesting that that this label can help finance the 'ecological transition'</li> <li>• Green Growth Law Articles 176-VI &amp; 173-IV are introduced (2015)</li> </ul>
	Impacts	<ul style="list-style-type: none"> <li>• Creation of a 'voluntary employees savings' market</li> <li>• French MNCs to report on ESG which supports the creation of a market for CSR ratings</li> <li>• Trade unions 'captured' the SRI topic through their regulatory-designed involvement within employee savings schemes and FRR/ERAFP governance</li> </ul>	<ul style="list-style-type: none"> <li>• Article 224 requires all French AMs to disclose in their annual report and on their website: (a) their strategy for ESG criteria integration and (b) how they exercise their voting rights</li> <li>• Article 225 extends the obligation to report on E&amp;S issues to unlisted companies</li> </ul>	<ul style="list-style-type: none"> <li>• 'SRI label' and 'ecological transition label' supported respectively by MoE and MoF</li> <li>• 176-VI requires 840 French AOs to report on their ESG activities, particularly associated with climate change; 173-IV extends and specifies reporting about ESG issues for listed companies</li> </ul>
Indirect rowing	Main actions	<ul style="list-style-type: none"> <li>• CDC invests in Arese and then Vigeo</li> <li>• CDC creates its subsidiary Novethic</li> <li>• FRR develop its SRI activity</li> <li>• ERAFP implements its SRI charter for all AuM</li> </ul>	<ul style="list-style-type: none"> <li>• IRCANTEC signs the PRI and adopts an SRI approach for all assets classes</li> <li>• ERAFP and FRR choose AMs and CSR ratings agencies to manage their SRI strategies</li> </ul>	<ul style="list-style-type: none"> <li>• FRR, IRCANTEC, ERAFP, CDC commit to disclose their carbon footprint by December 2015; and launch of the 'responsible public administrators network' (RAIR)</li> </ul>
	Impacts	<ul style="list-style-type: none"> <li>• First CSR rating agency that supports the emergence of an SRI funds' market</li> <li>• Provision of SRI-related market data</li> </ul>	<ul style="list-style-type: none"> <li>• Public asset owners (CDC, FRR, ERAFP, IRCANTEC) push SRI market growth by offering sizeable mandates</li> </ul>	<ul style="list-style-type: none"> <li>• Enrolment of leading AMs and private AOs</li> <li>• SRI AMs and AOs committed to support the implementations of the Article 173</li> </ul>
Micro-steering	Main actions	<ul style="list-style-type: none"> <li>• Creation of the CIES label by trade unions, stipulating that AMs should have internal SRI resources and use diversified ESG information</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of the 'Novethic SRI label' that requires full ESG disclosure on portfolio holdings and a cap on derivatives use</li> <li>• Design of the Novethic's 'Green label'</li> </ul>	<ul style="list-style-type: none"> <li>• The public SRI label imposes a 20% exclusion rate; and emergence of ESG impact reporting</li> <li>• TEEC label excludes nuclear energy and promotes Green Growth</li> </ul>
	Impacts	<ul style="list-style-type: none"> <li>• AMs hire internal ESG analysts and diversify sources of ESG information</li> </ul>	<ul style="list-style-type: none"> <li>• 92 AMs (out of 121 applicants) obtain the Novethic SRI label</li> <li>• AMs 'row' towards the labels' requirements</li> </ul>	<ul style="list-style-type: none"> <li>• 'Novethic SRI label' and the 'Green label' are discontinued; the two governmental labels (TEEC and SRI) dominates the SRI scene</li> </ul>
Transnationalizing	Main actions	<ul style="list-style-type: none"> <li>• Launch of the PRI and of Eurosif</li> </ul>	<ul style="list-style-type: none"> <li>• Launch of the European Transparency Code</li> <li>• European UCIT IV regulation on ESG reporting</li> </ul>	<ul style="list-style-type: none"> <li>• COP21 Paris Agreement December 2015</li> <li>• European Capital Union market project</li> </ul>
	Impacts	<ul style="list-style-type: none"> <li>• CDC, ERAFP and FRR support the PRI launch</li> <li>• Leading French AMs sign the PRI</li> <li>• French SIF (FIR) became a member of Eurosif</li> </ul>	<ul style="list-style-type: none"> <li>• French AMs association AFG, FIR, Novethic involved in drafting and disseminating the ETC</li> <li>• EFAMA launches its SRI working group and publish a first SRI white paper</li> </ul>	<ul style="list-style-type: none"> <li>• International Award for Investor Climate Related disclosure launched by MoE</li> <li>• Creation of a European commission high level expert taskforce on responsible Finance</li> </ul>

# 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