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Rethinking the link between Corporate Responsibility and Financial Performance: a tale of strange bedfellows?

"Not everything worth measuring is measurable; not everything measurable is worth measuring" Albert Einstein

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Abstract

The extant literature on the link between corporate social performance and corporate financial performance has continued to be surprised by mixed and at best, inconclusive results. Leveraging recent theoretical and empirical developments in the social studies of financial markets this paper explores the assumption often made in the literature with regards to the link between corporate social and financial performances. A significant proportion of this literature often tends to operate from the view that corporate social performance and financial performance share the same market logic and common exchange 'currencies', which is not the case. Drawing from an empirical study of the challenges of mainstreaming responsible investment practices, this paper highlights the competing logics undermining the markets for corporate social responsibility, and argues the case that corporate social responsibility is a unique economic paradigm that will either need to develop its own markets, in order to be viable, or lend itself to be easily translated into the current dominant markets for financial goods and services largely characterised by the logics of calculation and singularization, in order to fit into the logic of corporate financial performance. If not, corporate responsibility and the financial markets will continue to be strange bedfellows.

Keywords: Markets for Corporate Social Actions; Corporate Financial Performance; Social Studies of Finance; Competing Market Logics

Introduction

There is an increasing interest in the literature to demonstrate the link between corporate social responsibility (despite its multiple interpretations and practices) and corporate financial performance (e.g. Mackey et al., 2007; Hull and Rothenberg, 2008; and Baron, 2009). While some of these studies claim a positive relationship between corporate investments in corporate social responsibility (CSR) and corporate financial performance, a rigorous meta-analysis of these studies conclude that at best the relationship between investment in corporate responsibility and corporate financial performance is neutral – with a negligible marginal positive impact (Orlitzky et al., 2003). CSR, in this regard, comes across as a corporate hygiene factor – i.e. the absence of it hurts, but the presence does not significantly impact on the fortune of the firm. Whilst these studies are laudable, they often tend

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to assume the automatic appropriability of responsible business practices into the financial market space, as if the former lends itself well to the calculative and singularization logic of the latter, and therefore is often inclined to take the market performativity of CSR for granted. First of all, they do not easily recognise the possibilities of the existence of different markets for different goods and services (Araujo, 2007) and, therefore, tend to make assumptions of the dominant market logic of calculation characteristic of financial markets, homogenise this logic across different markets and take the enactment of this unitary market logic (i.e. its performativity) for granted (Callon and Munieza, 2005). In other words, this growing interest in the link between corporate social performance and financial performance misses to ask the question: to what extent does the appropriation of the CSR paradigm into the financial market space fit into the dominant market logic of calculation and how could this appropriation of CSR be enabled and performed to fit the dominant financial market logic? And no where is this more evident than in the markets for responsible investments – i.e. the inclusion of environmental, social and governance (ESG) issues in investment decisions.

The market for responsible investment is one of the variants of the broader corporate social responsibility and corporate social performance agenda. It has made its mark through the social responsible investment (SRI) practice, which has for a long time remained a niche market for investors interested in environmental, social and governance (ESG) issues. The SRI market has witnessed different stages of existence. In some cases, it focuses on negative screening in the selection of the stocks and companies for investment purposes. In some others, it leverages positive screening strategies to select the best in class of stocks and companies for target investments. Throughout its development, the SRI practice has been trailed with a lot of interesting research projects to ascertain how well such investments perform in relation to other forms of investments (cf. Orlitzky, Schmidt, & Rynes, 2003??).

However, there are equally growing concerns that investment decisions, and the financial market broadly, do not appropriately reflect all the ingredients that go into creating high performing organizations. As such, business valuations often rely on incomplete information – especially with regards to information on intangibles – e.g. brand equity and risks. The inability of markets to completely govern investment externalities lies at the heart of the market failure debate. This concern has been understood by some market participants – including regulators, business associations, analysts and investors – who think that investment decisions and business valuations could be enhanced if they properly reflected environmental, social and governance (ESG) risks that often tag along with them. This concern has gathered significant momentum since the turn of the 21 st Century with its associated environmental, social and governance challenges. Whilst some market actors see the need to incorporate ESG into investment decisions as opportunities for new market/product creations – e.g. the SRI market – others, mainly the *mainstream actors*, are yet to fully come to terms with it.

Although the academic literature on the link between corporate social performance and corporate financial performance is riddled with mix-findings, the case for mainstreaming SRI is on the increase. According to the Eurosif, "...the global SRI market can be estimated to reach approximately

€5 trillion…" (Eurosif, 2005:58). To a large extent, the growth of the SRI market is as a result of the seeming acceptance of the corporate social responsibility agenda as a practice that has come to stay. One can also argue that the interest behind the expansion of the SRI market is as a result of the growing risks associated with environmental, social and governance issues. There is also the awareness that there are major actors involved in the dissemination and diffusion of these practices – e.g. governments, multinational corporations and in most cases transnational governance institutions (Amaeshi, 2009).

Despite the interests behind the responsible investment movement and the bold forecast that it will"become mainstream within asset management by 2015, reaching between 15%-20% of total global Assets Under Management ($26.5 trillion) and a total revenue of approximately $53 billion." (Robeco Investment Management and Booz & Company, 2007:3), it still appears to be at the fringes of the global financial market – a market estimated to be up to $140 trillion (more than three times the global GDP) at the end of 2005 (McKinsey Global Institute, 2007). To understand this puzzle, the paper draws insights from the extant literature on the sociology of financial markets – especially the performativist perspectives of markets (Mckenzie and Millo, 2003; Beunza and Stark, 2003, 2004; Fligstein and Dauter, 2007; Callon and Muniesa, 2005), and seeks to unpack the barriers that may stand in the way of mainstreaming the market for responsible investment. It pays specific attention to the question: to what extent does the responsible investment market, as part of the broader market for CSR, fit into the dominant market logic of calculation and singularization?

The socio-technical perspective has been used extensively to study the emergence of different markets – e.g. wind power market (Karnoe, 2004), financial derivatives market (MacKenzie and Millo, 2003), financial arbitrage (Beunza and Stark, 2003, 2004), mobile markets (Simakova and Neyland, 2008), and carbon markets (Callon, 2009; Lohmann, 2005) – but rarely applied to the study of markets for CSR[2]. Nonetheless, CSR still remains one of the under-theorized aspects of management studies. The novelty of this paper, therefore, lies mainly in bringing together these disparate sets of literature to understanding the dynamics of the responsible investment market, which could equally provide some useful insights into unlocking the inconclusive and often mixed results of studies on the relationship between corporate social performance and corporate financial performance in the literature. It is also new in the sense that, unlike most academic pieces that are based on meta-analysis of the academic literature, this paper is primarily based on materials/documents, as well as focus group discussions, produced by the practitioners themselves. These practitioner groups include: fund managers associations, think-tanks, multinational institutions, accounting firms, consultancies, et cetera. This is particularly interesting since the practice of CSR is well ahead of its theorisation.

It is anticipated that the findings of the paper will be relevant to practitioners in the field of responsible investing, and offer some insights on the future direction of research in this area. The paper is divided into 3 sections. It starts by exploring CSR as a unique economic paradigm, followed

[2] Some notable exceptions here include Dejean et al. (2004) and Igalens and Gond (2005)

by a discussion on markets as institutions with non-homogenous logics. It finally presents and discusses the research evidence.

CSR: an economic paradigm with a distinct governance logic

Why do firms exist? Several economic theories give different but related reasons for a firm's existence. The neoclassical model of the firm, in particular, sees profit maximisation as one of the main reason for a firm's existence, while other views range from increase in sales and maximization of managerial utility (Baumol, 1967) to the efficient allocation of scarce resources and the firm as a legal nexus of contracts (Williamson, 1996). Beyond these mainstream reasons lies the understanding of a firm as a social entity constituted to facilitate a 'just and fair' society (Fligstein, 1996). Unfortunately, in most free and perfectly competitive markets [3], this goal of facilitating a 'just and fair' society is not often attained because the supply curves of producing firms rarely internalise the full social costs and benefits [4] associated with the production of goods and services in society. The inability of markets to reflect the full social costs or benefits of a good, service, or state of the world is technically referred to as market failure. [5] In this regard, markets fail to ensure the most efficient or beneficial allocation of resources.

The inefficiency exhibited by firms in their relation to the larger society often results in some sort of intervention from the government, markets, the civil society, consumer groups, and other relevant constituencies, and in some cases self-regulation exercised by the firms themselves. Such intervention aims to restore the socially optimal equilibrium in production and to enable firms internalise the externalities resulting from their production activities. The government, for instance, uses various policy instruments, such as taxes, subsidies, quotas, and tradable permits to achieve the required social optimal level in production.

The idea of externality is a complex and contentious one, since what constitutes an externality is a central area of debate. If the notion of externality poses some theoretical difficulties, then the governance of externalities is all the more a daunting task. There is no one route to governing externalities. Different mechanisms have been employed to this effect by different governance modes, depending on whether positive externalities are to be maximised or negative externalities minimised.

Traditionally speaking, corporate externalities for the most part have been positioned in the public space, and the burden of governing them has always been borne by the State. Externalities are the costs borne by an uninvolved third party as a result of a corporate transaction. This could be at the production, sale or consumption point. A good example of a negative externality is the pollution arising from a production plant, which causes some health hazards to residents not involved in the business transaction.

3 In the free and perfectly competitive market, the firm maximises profit at a point where marginal revenue equals marginal cost and price (MR=MC=P).

4 Social Costs = Private costs (cost to the firm) + External costs (cost to the society not borne by the firm)

5 http://www.ecosystemvaluation.org/glossary.htm

Another negative externality could be the impacts of binge drinking on the society, which is not factored-in in the production cost of alcohols. In such instances, the social costs are borne by the society. In order to curtail such negative externalities, the State often uses its governance mechanisms such as taxation and regulation. Externalities in both neoclassical economics and political economy are quite often articulated from a negative dimension, i.e. negative externalities, which are also known as 'market failures'.

However, corporate externalities can also be positive, such as the salaries of employees that directly or indirectly impact positively on the local economy (i.e. multiplier effects). It could also be the extra cost voluntarily incurred by a producer to go beyond the minimum expected by regulation, or the provision of education and other social infrastructure by firms through philanthropic or other citizenship activities. These forms of externalities have traditionally also been governed by the State through the provision of subsidies as incentives for private businesses to be involved in the production of such goods and services. These incentives today could be offered by other 'relevant publics': customers through loyalty, employees through commitment and retention, the local community through provision of conducive environment and licence to operate, and the financial markets through reward for brand equity and enhanced reputation.

In any case, whether positive or negative, the issue of *free-riding* is pertinent to the governance of corporate externalities. *Free-riding* promotes self-interest at the expense of the other's interest. The quest for self-interest by firms in the governance of externalities expressed through free-riding gives rise to lack of trust at the individual or personal level. In such instances, institutional trust expressed through formal rules and regulations is preferred well and above personal trust. Accordingly, the market and its actors, including firms, become formalised trust systems (Mollering, 2006; Beckert, 2009). This understanding of the market and the firm is at the root of the conventional theory of the firm in economics and political economy, where business transactions are often seen as impersonal and amoral.

The public regulation of firms often comes with implementation costs borne by firms and enforcement costs borne by regulators, both of which contribute to an increase in the overall social costs. [6] This has led to the call for a 'smarter regulation'. Here, CSR positions itself as a smarter, efficient and less costly complementary or alternative mode to the hitherto existing governance mechanisms of corporate externalities. But for the CSR project to be successful, as a complementary private governance mode to government interventional mechanisms, the larger society has to provide the enabling environment for self-regulation to thrive. In other words, the success or failure of CSR as a self-regulatory mechanism is dependent on the existence of complementary governance mechanisms. For example, if a firm tries to reduce negative externalities, these efforts can only be sustained under certain conditions where customers pay more for products, NGOs help make standards visible, and governments have disclosure rules that affect competitors. In such an enabling environment, CSR affords firms and

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[6] Moreover, it is also acknowledged that the State does not enjoy a 'monopoly of wisdom', and may sometimes get things wrong or be hijacked by some elite groups, as it is evident in some developing democracies.

managers the opportunity to adjust their means of production in a way that gives them competitive advantage and enhances their long term sustainability. These adjustments are expected to enhance social benefits and reduce social costs simultaneously. CSR in this sense becomes a strategic force, and a management idea, for successful business through the creation of entrepreneurial opportunities.

CSR as a management idea gives rise to several management innovations. Birkinshaw et al. (2008) make a subtle distinction between management ideas and management innovations. While management ideas are often macro and generic as "fairly stable bodies of knowledge about what managers ought to do, [...] a system of assumptions, accepted principles and rules of procedure" (Kramer, 1975); management innovations are management ideas put into practice at the operational level: "the invention and implementation of a management practice, process, structure, or technique that is new to the state of the art and is intended to further organizational goals" (Birkinshaw et al., 2008:10). Thus, innovative business practices such as fair trade, accounting for sustainability, corporate governance, responsible investments and philanthropy can be seen as management innovations arising from CSR as a management idea.

Nevertheless, the conception of CSR as a management idea expressed through management innovations is not common. In fact, it has been at the centre of contentious debates among scholars. For example, over the years the CSR concept has undergone some re-branding and remodelling, resulting in the proliferation of terms as corporate responsibility, corporate citizenship, corporate social performance, and sustainability. However, what is often missing in these characterisations of CSR is the common philosophical foundation they share, in spite of their lexical differences.

This paper argues that CSR is an economic philosophy of entrepreneurship and innovation with a distinct logic. Whether as a management idea or a management innovation, CSR is implicated in various forms of governance of corporate actions, which are largely private. CSR deals with the reduction of negative externalities and the promotion of positive externalities by management. It acts as an antidote to market failure by assisting the market to internalise its externalities. As such, it is a self-regulatory mechanism adopted (or to be adopted) by corporations in the governance of corporate externalities whether positive or negative.

The goal of positioning CSR as the private governance of corporate externalities is not to undermine the role of the government or other public

Criteria for selecting the Report Documents

- Documents focused on the broad areas of Environmental, Social and Governance (ESG) issues in investment decisions, project finance and or financial markets – including:
    - sustainable finance,
    - responsible investments,
    - CSR and corporate performance,
    - CSR and investor behaviour,
    - non-financial and or extra-financial performance,
    - sustainability and financial markets

governance modes in regulating corporate externalities. Rather, it affirms the co-existence of a plurality of governance modes, where CSR complements the existing public and informal governance modes, and thus creates a better chance that both the public and private governance modes will compensate for each other's weaknesses in the governance of corporate externalities. In other words, CSR becomes a private initiative or voluntary effort by firms to fill governance voids or to complement existing governance modes within specific institutional configurations (Kang and Moon, 2009; Richardson, 2009). It is from this perspective that the market for CSR needs to be appreciated as a market with a distinct governance logic, which could be different from the calculative logic of the financial markets.

Markets: institutions, logics and their performativity

Markets are institutions in their own right. Although markets have been theorised as socially embedded, and therefore either constrained or enabled by social norms and institutions (Granovetter, 1985), there is a tendency in the scholarship to confuse this understanding of markets, as series of social exchanges governed by social norms and institutions, with the idea of markets, as institutions in themselves – with their specified 'rules of the game' (North, 1980). According to Loasby (1999:107), "to confuse markets with exchange is a category mistake; it is a confusion of institutions and activities". He further argues that "…an exchange is an event…; it is something that happens. A market is a setting within which exchange may take place – a setting which refers to 'a group or groups of people, some of whom desire to obtain certain things and some of whom are in a position to supply what the others want' (Marshall, 1919:182). The relationship between markets and exchange requires some analysis". This distinction between markets as institutions and markets as series of exchanges is very useful in accounting for the creation, sustenance, emergence and performativity of markets (e.g. Holm, 1995; Simakova and Neyland, 2007) in both the institutionalist and social technical perspectives of markets.

Markets as institutions are, however, diverse (Kjellberg and Helgesson, 2006). In other words, the market for commodities is different from financial markets as well as carbon markets. Markets also constitute of different defining institutional logics – i.e. organising principles, which might be in competition with each other. Denis et al. (2007) referred to this co-existence of institutional logics as institutional pluralism. A good example of an institutional pluralism is the case of a Utility company, which through privatisation inherits both market logics of profit maximisation and regulatory logic of ensuring a competitive market in order to maximise social welfare (Jarzabzowski et al., 2008). In a similar trend, Reay and Hinnings (2009) present the case of the health care system in Alberta, Canada, which had to cope with the uncomfortable co-existence of the competing logics of *business-like* logic and *medical professionalism* logic, respectively. Although institutional pluralism has been black-boxed in accounts of institutional inertia and dynamics, some studies have begun to examine it in much detail and to explore the strategies employed by entities trapped in such circumstance to cope with the complexities of institutional pluralism (e.g. Jarzabzowski et al., 2008; Reay and Hinings, 2009). Accordingly, Lounsbury (2008) argues that: "By focusing on how fields are comprised of multiple logics, and thus, multiple forms of institutionally-based rationality, institutional analysts can provide new insight into practice variation and the dynamics of practice". This also applies to understanding of markets as dynamic institutions.

From a performativity perspective, Callon and Muniesa (2005:1245) define a market – in the neo-classical sense of it, which is a dominant framing of markets – as "*...a collective device for the evaluation of goods... (which)... is possible only if goods can be calculated by calculative agencies whose encounters are organized and stabilized to a greater or lesser degree".* In its performativity, therefore, the market, as a collective device for the evaluation of goods, requires to objectify the good and singularize the outcomes of that objectification. Objectification, in the sense used by Callon and Muniesa (2005), implies some sort of tangibility and manipulability – in other words, the good evaluated has to be "a thing" (Callon and Muniesa, 2005). Both tangibility and manipulability allow the market system to compare and contrast. The comparability of data adds to the data quality. And one way to objectify the good evaluated is through quantification, which is at the heart of the neo-classical market logic. Through s *ingularization,* the objectified is brought together in a singular system – e.g. the price mechanism – for it to leave the world of supply (i.e. the seller) and slot into the world of the buyer (Callon and Muniesa, 2005).

The performativity of the neo-classical market also requires agents and exchanges to be enacted. In this instance, both objectification and singularization are enacted by agents through (specialised) exchange media. Accordingly, "...the co-production of singular and objectified properties requires the involvement of a large number of 'market professionals' (marketers, packagers, advertisers, designers, merchandisers, sellers, etc.)" (Callon and Muniesa, 2005:1234) because "... the construction of markets is an accomplishment that depends on the mobilisation of different bodies of expertise..." (Araujo, 2007:211). In sum, the singularization and the objectification attributes re-enforce each other and strengthen the market needs upon which tangibility and comparability are built by agents and through exchanges. This link also supports the efficient market hypothesis, which assumes that the market internalises information (i.e. quality data) in a way that supports both tangibility and comparability. In this regard, the effectiveness of markets, therefore, "...stems from the fact that they make complicated calculations possible, and that these produce practical solutions to problems that could not otherwise be solved by purely theoretical reflection...(and)...to be calculated, economic goods have to be calculable" (Callon and Muniesa, 2005:1229;1230). It is against this dominant logic of neo-classical performativity of markets that the market for responsible investments is often measured or anticipated to be calculated, contrary to its governance of externalities logic.

Leveraging the performativity perspective of markets, the empirical evidence presented in this study highlights some of the tensions encountered by most market actors in the responsible investment field in translating the market for responsible investments with the logic of the neo-classical constitution of the market.

Methodology

The data for this study were drawn from multiple sources – i.e. practitioners' reports, focus group discussions and a Delphi panel session. The study searched for practitioners' reports in this field since 2000 – given that much of the momentum in this field has been, mainly, since the turn of the Century - and identified 82 reports from accounting firms, investor associations, business coalitions, investment banks, multinational institutions, consultancies and think tanks, governments and multi stakeholder fora.

The choice of these practitioners' reports as data sources is not arbitrary. In addition to the fact that CSR practice is well ahead of the academic literature, the role of texts in the institutionalisation of practices is very much acknowledged in the extant literature (Taylor et al., 1996). Philips et

al. (2004), for instance, is one of the major step changes in management literature linking discourses directly to institutions. Social reality, it is argued, is constitutive of discourses. Without discourse, there is no social reality, and without understanding discourse, we cannot understand our reality, our experiences, or ourselves" (Phillips and Hardy, 2002). Drawing from Parker (1992), Phillips and Hardy (2002:3) define discourse "... as an interrelated set of texts, and the practices of their production, dissemination, and reception, that brings an object into being". In other words, the goal of discourse analysis is to ascertain the constructive effects of discourse through the structured and systematic study of texts (Hardy, 2001; Phillips and Hardy, 2002). In this regard, language becomes fundamental to institutionalization and institutionalization occurs as actors interact and come to accept shared definitions of reality (Phillips et al., 2004). As such, it is through linguistic processes that definitions of reality are constituted (Berger & Luckmann, 1966). Continuing, Phillips et al., state that "...institutions, therefore, can be understood as products of the discursive activity that influences actions (p.635)".

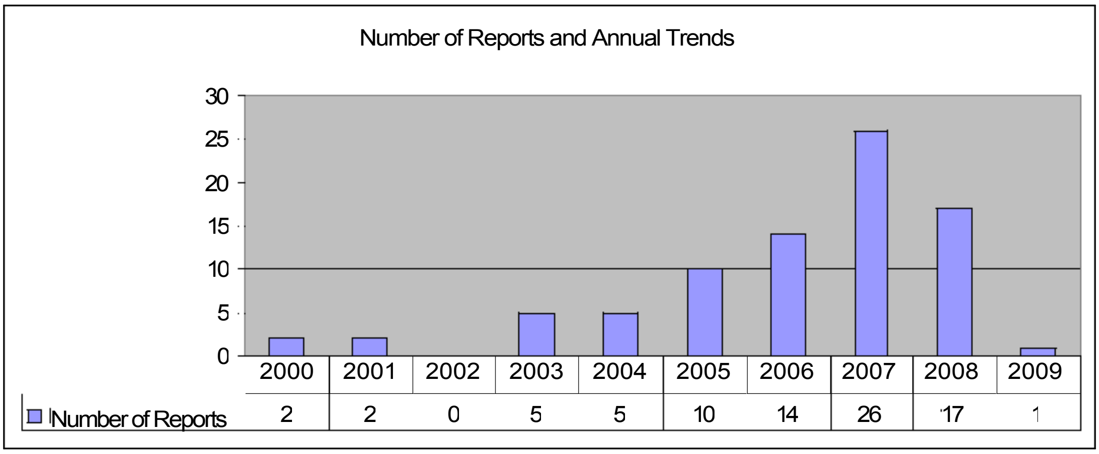
According to Phillips et al., actions inform the formative processes of institutionalisation and resultant institutions in turn inform, enable and constrain actions. This interactive process is mediated by texts and discourses. Actions generate corresponding texts; but not every action is capable of generating texts that are widely disseminated and consumed. Phillips et al. theorise that only actions that require organisational sensemaking and that affect perceptions of organization's legitimacy are more likely to result in the production of texts that are widely disseminated and consumed than actions that do not (p.642). The texts in turn inform discourses which in turn inform institutions. However, not every text is capable of becoming embedded in discourses, except those "...that are produced by actors who are understood to have a legitimate right to speak, who have resource power or formal authority, or who are centrally located in a field" (644). In addition, "...texts that take the form of genres, which are recognizable, interpretable, and usable in other organizations and texts that draw on other texts within the discourse and on other well-established discourses are more likely to become embedded in discourse than texts that do not" (644) . In the same vein, they argue, not every discourse gives rise to institutions. Discourses that give rise to institutions are "coherent, structured and... supported by broader discourses and are not highly contested by competing discourses" (p.645).

The criteria for selecting the texts used in this study are presented below.

- Documents produced mainly by practitioners – e.g. consultancies, think-tanks, industry associations, accounting firms, regulators, multinational institutions, multi-stakeholder groups, etc. Where published by academic institutions or by academics, the document should be understood as being addressed to practitioners and not meant for the academic audience
- Documents not published in academic journals
- Documents should be impactful – impact factor to be determined by practitioners awareness of the document – e.g. through citations or word of mouth reference
- Documents published from 2000 to date

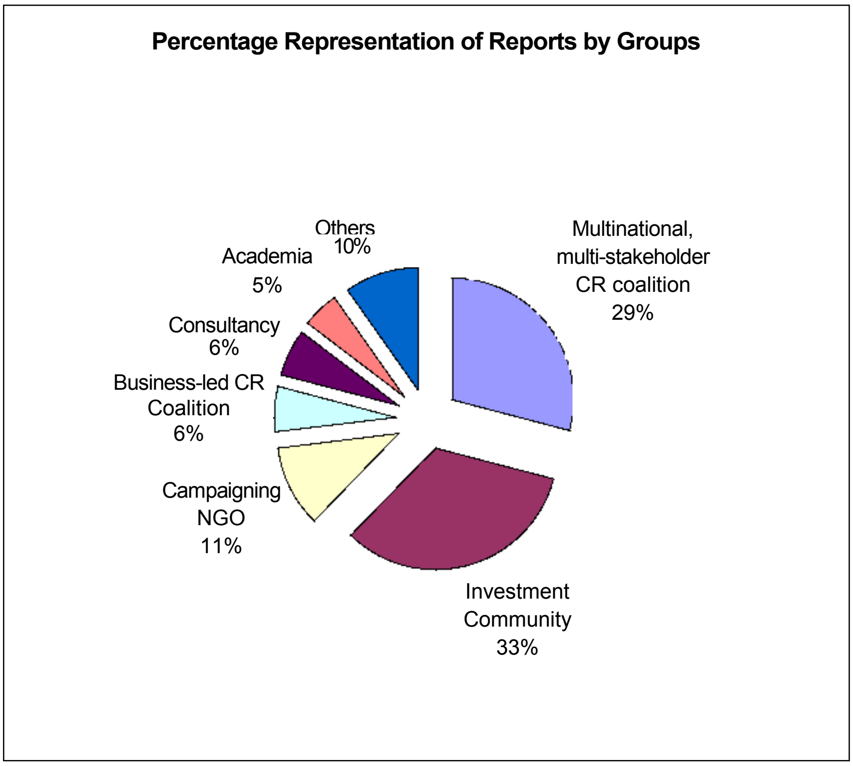
A list of the 82 reports were sent to 36 experts in the field to advise on the relevance and impacts of these reports. The experts were also asked to identify other reports the study might have missed out in the process. The intention here was to meta-analyse these reports with the aim of identifying the major issues involved in integration of ESG risks in investment decisions. 18 responses were received, out of the targeted 36 practitioner respondents. A good number of the reports presented to them were considered relevant and impactful. 13 extra reports were suggested through this process, which were added to the mix. In total, they constituted well over 4,000 pages; however, a sample of these (22 of them) – i.e. those most mentioned by the respondents – were analysed. A breakdown of the sources of the reports and the annual trend of the reports identified are presented below.

In addition to the practitioners' reports, 5 focus group sessions were conducted in parallel in some financial cities of Europe (Frankfurt, Milan,



Paris, Rome, and Stockholm). Each of the focus group sessions had an average of 15 discussants draw from the different interest groups of fund managers, accounting firms, consultancies, CSR specialists, et cetera. The focus group discussions were facilitated by a group of experts drawn from the academia and industry. Given the sensitivity around ESG issues – especially with regards to competitive, regulatory and civil society pressures – these discussions were conducted in a 'safe' environment to encourage honest conversations – i.e. openness and sharing of information. The focus group discussion sessions were governed by the Chatham House rule [7] and as such, were not recorded – but notes were taken by the experts from academia and industry who observed the different sessions.

Following the outcomes of the semi-structured interviews, focus group sessions and the review of practitioners' reports, a Delphi [8] panel session was run to share the findings of the study with experts in the field and also to get their feedback on how to improve on the research. The Delphi panel session drew about 30 participants from the mainstream investment community, boutique SRI community, academia, professional bodies, and the CR/ sustainability community. The researchers were all involved in the Delphi panel sessions and the suggestions/ feedback from the sessions were further discussed and reflected upon by the researchers immediately after the sessions, the next day, whilst the feedbacks were still fresh.



[7] The Chatham House Rule reads as follows: "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed". The world-famous Chatham House Rule may be invoked at meetings to encourage openness and the sharing of information.
http://www.chathamhouse.org.uk/about/chathamhouserule/ visited March 26, 2009

[8] The objective of most Delphi applications is the reliable and creative exploration of ideas or the production of suitable information for decision making. The Delphi Method is based on a structured process for collecting and distilling knowledge from a group of experts by means of a series of questionnaires interspersed with controlled opinion feedback (Adler and Ziglio, 1996). According to Helmer (1977) Delphi represents a useful communication device among a group of experts and thus facilitates the formation of a group judgement. **Culled from**: http://www.iit.edu/~it/delphi.html

Data analysis

The notes generated from the focus group sessions and the practitioners' reports were then qualitatively analysed by Nvivo following a rigorous coding scheme developed by the researchers (included in the appendix section of this paper). A sample of the issues identified through the data analysis as some of the main areas where the market for responsible investments is still struggling to align itself with the dominant logic of the neoclassical financial markets are discussed below.

Findings and Discussion

In this section we map the themes that emerged from the data analysis onto the dominant logics of financial markets highlighted earlier in the paper in order to appreciate the seeming misalignment between the fundamental logics of the two markets – i.e. markets for Responsible Investments and the mainstream financial markets.

Financial Market Logic #1: Objectification

The data show that ESG issues present a very high degree of complexity, which makes them very difficult to articulate, assess and integrate into investment decisions. This complexity is tied to the challenge involved in understanding the boundaries of ESG issues – i.e. what is in and what is out. This is no doubt linked to the historical baggage the ESG issues tend to inherit from the Social Responsible Investment trend. The SRI market has all sorts of issues embedded in it; including value based funds (ethical funds) as well as positively and negatively screened funds. One could argue that it is difficult to point to an absolute morality (or ethics), which makes the entire drive towards ethical investment easily susceptible to relativist arguments, and therefore subjective and not easily amenable to a market characterised by the quest for 'objectivity', comparability and generalisability (Callon and Muniesa, 2005). Reflecting on this confusion and complex identity, some fund managers said:

> Part of our challenge as a movement is that we have a confusing persona in the marketplace. One minute we are talking about values and clients' ability to define ethical issues, another minute we are talking about ESG integration that could help in a risk-adjusted way. We merge all those together. Not surprisingly, clients, customers, consultants and everyone else, including ourselves, get confused. (Responsible Investor, *Responsible Investment Landscape 2008 Asset Owners*, p.6)

> ... having found 16 different phrases to describe the kind of sustainability data that managers say they are now integrating into their mainstream analysis, it's hardly surprising people are confused and that integration is not moving as quickly as it could! If we want mainstreaming to accelerate going forwards, finding one or two consensus terms that embody what integration is about would be a very good move. (AXA, *Investment Managers Survey Report*, 2008)

Given that the CSR logic is to chase externalities and mitigate market failures, this complexity and uncertainty is further orchestrated by the fact that the corporate responsibility agenda, upon which the ESG issues are founded, is always expanding and adjusting to the demands of the time. The issues are constantly evolving and as such difficult to pin down. For example, the issue of obesity and healthy eating has entered the corporate responsibility agenda, where it was not in the last decade or so, especially in the developed economies. The same can be said of other issues like climate change, water scarcity and even immunisation (e.g. PharmaFutures). This fluidity, while necessary in identifying and internalising externalities arising from corporate actions and inactions, carries with it significant amount of complexity and uncertainty. Commenting on the expansionary nature of the CR agenda, Arthur D. Little said:

"At the same time, the CR agenda continues to expand, with new theories about what is 'responsible' business practice. What was once a simple set of ethical principles now embraces such issues as: resource use; greenhouse gas emissions; genetic modification; product pricing in developing countries; animal testing; ethical trading; and so on. In order to satisfy investor demands for information on such a diverse range of topics, SRI researchers demand an increasing quantity of information from companies on their policies and practices in all of these areas.... The widening scope of SRI analysis is obscuring efforts to focus down on the material issues." (Arthur D. Little, *Speaking the same language*, 2003:6)

The quest to unpack and address these complexities often leads to information overload, because "...Investors have limited time and resources to analyze corporate data.... especially if that information has no clear link to investment decision-making ... for it to effectively support an efficient market.(Boston College, *White Paper: Report on Project Findings Corporate Reporting of Social, Environmental, and Governance Information: What Investors Want*, 2008:4)

Financial Market Logic #2: Singularization and Financialization

Issues around the singularization and financialization logic of the financial markets were expressed in 3 key ways: (a) quality of data, (b) materiality of data and (c) the time horizon of data.

(a) Quality of data

The data analysis shows that the quality of CSR data required for Responsible Investment decisions and quantification was raised as one of the main obstacles constraining the mainstreaming of ESG issues.

It was a common perception that most of the corporate material was of limited use for investment professionals, as it was (and still is today) typically communicated in prose style. Moreover, ESG data are often delivered to stakeholders as a separate paper report ESG information should be consistent and transparent. The information should be quantified and adequately explained. Comparisons with other organizations should also be possible. For this reason, all material changes in the boundaries and scope of reporting, or the reporting periods, should be indicated and explained. The reported ESG-KPIs must be accurate (i.e. free from significant errors), plausible, and definitive, and not in contradiction with current measures, other company (EFFAS, KPIs Reports, 2008)

"The ...reason for the scepticism of mainstream analysts is the lack of measures with which to compare CR performance between companies. Analysts are accustomed to using ratios and models to compare companies on a roughly equal basis, which helps to make portfolio decisions easier." (Arthur D. Little, Speaking the same language, 2003)

The argument, therefore, is that for ESG issues to be mainstreamed, they have to be amenable to these market demands of objectification and singularisation (Callon and Muniesa, 2005), as graphically explained below by an Investors Association body:

Integration of ESG is often viewed under a theoretical framework that, although currently under some scrutiny from the academic world, has been well-established through practical experience: namely that of "efficient markets". In short, this theory states that prices already reflect all known information relating to a share, and that the markets are in a state of equilibrium. All new information - and ESG represents an immense reservoir of additional information for financial analysts and investors (see above) - has the potential to impact the fundamental assessment of an equity. This presupposes, of course - and this is where the work of DVFA is focused - that the data is quantified, comparable, and benchmarkable! This is what makes the data usable for every investment professional. (EFFAS, KPIs Reports, 2008)

Notwithstanding, the need to meet the objectification and singularisation demands of the market appear to be undermined by data inconsistencies and insufficiencies arising mainly from the differences of ESG data in terms of actors, industries, regions and countries, as succinctly noted by the recent Goldman Sachs report and in one of the focus group sessions.

We are challenged by data inconsistencies, regional differences in policy focus, degrees of integration across the value chain, and diverse product portfolios across the companies in our ESG universe. We do not believe that sufficient quantifiable and comparable data exists to objectively measure several issues such as human rights, recruitment, training, local waste and water management and biodiversity. (GS Sustain, 2008)

It has often been highlighted that, depending upon the sector, the maturity of the company, its size and its context (locality, events, regulation, environment) the stakes linked to ESG dimensions can be very different. For example, environmental considerations would be very secondary for banks but of high importance for manufacturing industry. However, not all manufacturing industries are exposed to the same environmental problems and responsibility in this field can present themselves in differing ways with different types of technology and levels of investment. The same for those who have to formulate CR policy – they vary according to the company, its sector, time etc. (Focus Group, 2009)

Tied to this concern of data inconsistencies is the concern over the predictive reliability of data on ESG issues:

"If a company is rated very highly based on its ESG criteria and its share price has gone up, you can't be sure the company's share price went up because of the ESG criteria or some other reason. Perhaps by observing the company and similar investments for an extended period of time the relationship may become more obvious; but presently, it isn't possible to do." - Phone interview with Alka Banerjee of Standard and Poor's (April 10, 2008) (quote from BSR, 2008:9)

(b) Materiality of data

One of the vexing problems that have continued to hunt ESG issues is how to ascertain the issues that are material and those that are not. The materiality of these issues appears to be 'the missing golden link' in mainstreaming ESG issues, and at the heart of the debate on the link between corporate social performance (broadly defined as ESG issues) and corporate financial performance. For instance, WestLB (2007:1) argued that:

"The link (of ESG information) to other financial variables (share price performance, valuation, profitability, growth) is much less pronounced, and only in a few cases do we have reason to believe that it goes beyond mere statistical coincidence".

It is worthwhile to point out that the materiality construct is not entirely an independent one. Materiality is rather dependent on the other issues – such as quality of data, management processes, the methodologies and approaches employed, and even on the presence of a price system:

"To traditional financial analysts, ESG factors are often material only when they carry a 'price tag', a phenomenon that has been observable since the introduction of the European emissions trading system" (WestLB, 2007:11)

It has also been argued that the materiality of "extra-financial" factors do not necessarily support short-term performances (i.e. they are usually long-term focussed), which appear to be one of the dominant market logics.

"The concept of extra-financial materiality aims not to identify the factors that have an impact of +/-5% on the results of the coming fiscal year, but rather to record those factors that can have an impact of, for example, 10%, 20% or 50% over the next five, 10 or 20 years, or that can even be decisive to the company's survival" (WestLB, 2007:7)

In support of this, BSR (2008:3) commented that:

"Although many mainstream financial institutions, such as ABN AMRO and Goldman Sachs, have begun considering the effects of including ESG criteria as part of their fundamental financial analysis, investors are waiting for vetted proof of long-term materiality before fully incorporating the criteria". (p.3)

The ability to figure out the materiality of ESG issues, according to Arthur D. Little, is also dependent on the competence of the analysts:

"Material CR issues are those that really affect value. Some SRI analysts have a poor understanding of the materiality of CR issues to shareholders' interests." (p.4)

All these are further compounded by the fact that in the "... current definitions of trustee fiduciary duty, financial materiality and corporate disclosure requirements do not incorporate or ensure the integration of environmental, social and corporate governance issues into fundamental company analysis." (UNEPFI, 2004:5)

(c) Time horizon of data

Price is one of the essential elements of the neoclassical financial market and is a function of time. Therefore, time is an essential element in the investment decision equation. And this comes up often as one of the challenges in the way of mainstreaming ESG issues, especially as the financial markets are in the main skewed towards short-termism and ESG issues are often long-term oriented. There is a kind of default mode of thinking that expects attention to ESG issues in investment decisions to conform to short-term demands. In a survey conducted by EIRIS, it was found that:

In the 'top 10' sectors over 90% of investors surveyed believed that ESG issues would have some impact on the companies' value over the short to medium term (3-5 years); over a third considered the financial impact to affect over 10% of the value of companies; and around

10% considered over 25% of value to be at risk (EIRIS, 2006)

This creates a competitive tension, and often a mismatch, between short-term and long-term investment time horizons, on one hand, and short-term and long-term investment interests. But most of the time, the short-term pressures tend to win against long term interests and time horizons. However, the CFA warns that:

> An excessive short-term focus combined with insufficient regard for long-term strategy can tip the balance in value-destructive ways for market participants, undermine the market's credibility, and discourage long-term value creation and investment. Such short-term strategies are often based on accounting-driven metrics that are not fully reflective of the complexities of corporate management and investment.

Financial Market Logic #3: Agents, Artefacts and Exchanges

The findings in this logic mainly fall under these two categories: (a) power relations and (b) trust and accountability, which are essential for the function of financial markets.

(a) Power Relations

In addition to the complexities engendered by the ESG issues, they also constitute an arena for contestations and power relations. These contestations and power relations in turn express themselves through different interests and interest groups. Unsurprisingly, the literature and sometimes in everyday professional conversations on ESG issues, the investor community is often considered and treated as a homogenous group. This understanding in itself tends to occlude the differences in both interests and power relations that could exist amongst investors. A participant in one of the focus groups drew attention to the fact that: "We should be careful here to recognise that investors are not an [sic] homogenous group. They are different and have different needs and therefore require different approaches".

Investors could also be differentiated in terms of their analytical inclinations – e.g. either quantitative or qualitative oriented – as well as their professional identities. These analytical inclinations and differences in professional identities are themselves enough sources of contestation because: "...a quantitative investor / analyst would say that he can't use [a company's] data because they could not compare cross-sector – whereas a qualitative- based one would treat [the same data] as interesting insight into quality of management" (Focus Group Discussant). There is also a tussle between the investment community and other professional groups. For instance, one of the participants in a focus group noted that:

> People in company have different views about their own CSR performance. For us SRI analysts help us to legitimise our own activity inside the company. CSR manager and SRI analysts kind of [sic] team up against the rest of the managers.

It is also recognised that the three legs of ESG are not treated equally. In most cases, the G issues are prioritised over E and S issues, as confirmed the research findings of a Think tank, below:

> Our findings suggest that asset managers' focus on ESG more often than not is limited to governance issues such as board structure and remuneration. Of the 22 asset managers that disclosed a policy on ESG issues 19 covered only corporate governance issues, while only F&C, Insight and Standard Life could explain their policy on environmental and social factors in any detail. Similarly, on corporate engagement, although the overall score for the 30 asset managers on ESG engagement was 53%, this fell to a mere 25% when environmental and social issues were considered separately from governance. It appears as though investment analysis of environmental and social risks/opportunities is confined to a small niche in the industry. This is a significant cause for concern as the risks associated with environmental and social mismanagement by companies can be as damaging to value as governance issues both in the short and the long run ......Although two thirds of the asset managers surveyed could demonstrate evidence of over 50 requests for change in company behaviour in relation to ESG issues; only one sixth (F&C, Insight, Aviva Investors, Schroders and Standard Life) could do the same once governance issues were removed. Evidence of success in securing change is also weaker in E&S than in ESG as a whole. (FairPensions, Investor Responsibility, 2008)

The power relations and contestations may sometimes, also, take a transnational and political nature.

> One reason why analysts, traders, and portfolio managers reject extra-financial information is that it "...has been defined exogenously. It is the result of a multi-stakeholder dialogue that is now being imposed on the closed 'capital market' system. Ultimately, incumbents fear that the objective of ESG is to change this system, and so their opposition should come as no surprise. It must, therefore, be made clear in each case what objectives are being pursued and what the underlying motives are" WestLB, What really counts – the materiality of extra-financial factors, 2007:5)

The 'view' that ESG issues are politically charged, as mentioned in the quote above is further corroborated by this quote from an Investor Association body:

> There is a considerable conceptual and communicative gap between the more politically and human rights-motivated UN campaign, "Principles for Responsible Investments", and the day-to-day experience of sustainability in many companies. This disconnect cannot be remedied by any legislative means, and no attempt should be made by legislatures to do so. The issue at hand is a translation of features and properties, which at first glance are difficult to grasp and too complex to quantify into indicators that the capital markets can understand, use for calculations, and relate to monetary figures. This type of modeling relies on the financial-analytical mindset of investment professionals. These are the people who will develop such models, and ultimately, the only ones who will recognize their usefulness. (EFFAS, KPIs for ESG, 2008)

(b) Trust and Accountability

All these challenges confronting the mainstreaming of ESG issues finally boil down to issues of trust and accountability – i.e. amongst the different actors, firms and even at the system level.

On the firm level, there is a seeming distrust of the credibility of management to represent ESG issues in decision making in ways that do not harm investors' interests. In this regard, most investors would expect that:

The information, data, processes, and assigned competencies required for the preparation of ESG reports should be recorded, analyzed, documented, and disclosed in such a way that they would stand up to an internal and external audit or review. An independent audit by well-qualified third parties is a particularly good way to increase the assurance capability (i.e. perceived reliability) of the reported ESG-KPIs. This also serves to ensure the credibility and acceptance of ESG communication among the target groups. As a rule, external auditing carries the additional advantage that ESG reporting and ESG management can be improved based on the best practices referred to by the auditor (EFFAS).

Ernst and Young (2007:4) also noted that: "Financial reputation is essentially about trust. The underlying question which needs to be clearly answered in the mind of the investor is whether they believe in management, their strategy and their ability to deliver". In other words, "the credibility of management, how they communicate and the quality of financial reporting are all paramount ...[since] ...financial reputation is primarily about building trust with, and demonstrating competence to investors" (Ernst & Young, 2007:3/4).

Despite the need that financial reputation is built on trust and accountability, "[M]ost fund managers scored very low on transparency, with only a few honourable exceptions" (FairPension, 2008). This paradox of low transparency even when high transparency is needed to enhance financial reputation is not unrelated to the dilemma (i.e. the unintended burden of trust) that confronts managers, and which is aptly described by the following extracts:

As can be seen, companies appear to be reluctant to put hard numbers upon these issues or set themselves targets that can then be held against them in the future - not just in the environmental or social fields. Ironically, when taken to extremes, such fears of bad publicity can also make them appear closed or having something to hide in the eyes of journalists and other audiences. The lack of disclosure can itself lead to bad publicity as they gain a reputation for failing to reveal information. (Business in the Environment, Investing in the Future, 2003)

"...there is no financial penalty for survey participation, the benefit is questionable and so it is often difficult to make the business case to disclose corporate information" (Research Network for Business Sustainability, 2008:16)

This air of distrust extends to other actors and artefacts such as in the table below:

...distrust for the	
SRI Community	*"The SRI community needs to become more credible to mainstream investors, and to justify its conviction that it can help investors to assess shareholder value more thoroughly." (Arthur D. Little, 2003:4)*
Measurement metrics	*"...none of [existing] frameworks have been observed long enough to conclusively show that they yield long-term outperformance" (BSR, 2008:8)*
Rating agencies	*"Organisations that conduct questionnaire surveys are*

	not clear enough about whose interests they serve, or what they will do with the information they receive. Their analysis is often seen by companies as naive." (Arthur D. Little, 2003: 4)

Conclusion

The extant literature on the link between corporate social performance and corporate financial performance has continued to be surprised by mixed and at best, inconclusive results. Leveraging recent theoretical and empirical developments in social studies of finance (SSF) this paper explores the assumption often made in the literature with regards to the link between corporate social and financial performances, which tends to apply a homogenised market logic and common exchange 'currencies' to understanding corporate social actions, on one hand, and corporate financial performance, on the other. Institutional logics of legitimacy and calculativity are entangled in both domains at different intensities and combinations. In line with SSF theorisations, the paper argues that while the market for corporate financial performance requires legitimacy to function, it is mainly driven and sustained by the logic of calculativity; and while the market for corporate social actions thrives predominantly on the logic of legitimacy and the intangibility of socio-cultural expectations, it is yet to effectively lend itself to calculative practices and machines (artifacts) required by calculative agents to orchestrate its performativity. It suggests that this distinction is necessary to resolve the inconclusive and mixed results generated so far and to advance research in this area of study.

Whilst these studies are laudable, they tend assume the financialisation of responsible business practices and take its performativity for granted. First of all, they tend to make assumptions of the dominant market logic of calculation, homogenise this logic – i.e. assume that there is only one market logic of profit maximisation – and take the enactment of this unitary market logic (i.e. its performativity) for granted (Callon and Munieza, 2005). In other words, this growing interest misses to ask the question: to what extent does the financialisation of CR fit into the dominant market logic of calculation and how is the financialisation of CR enabled and performed? Providing answer to these questions may, on one hand, hold the key to unlocking the inconclusive and often mixed results of studies on the relationship between corporate social performance and corporate financial performance; and on the other hand offer some insights on the future direction of research in this area.

In other words, conflating the two logics and their performativity would be akin to the proverbial storing of new wine in an old wine skin and or the mistake of comparing apples against oranges. For there to be advances in the search for credible link between corporate social performance and corporate financial performance, the performativity of the two needs to be harmonised through objectification, singularization and by appropriate agents and exchange mechanisms (Callon and Munieza, 2005). However, this is not yet the case. Some of the challenges highlighted by financial market actors, in this regard, include lack of reliable and appropriate metrics/tools to adequately measure ESG factors, which makes comparability of firms along these lines difficult and tricky. Companies who are motivated to include ESG factors in the way they run their businesses, on the other hand, struggle with communicating this to the market in a way that enables them to gain competitive advantages from such activities. The emergent sustainability and corporate social responsibility reports, unfortunately, do not generate the level of confidence to persuade investors to take them seriously. This leaves both investors and companies in an information asymmetry dilemma. However, the different challenges highlighted above need not be seen in isolation. They are often interwoven and recursive. For example, it is possible to find a strong link between financial reputation, and trust, on one hand, and data quality and materiality, on the other.

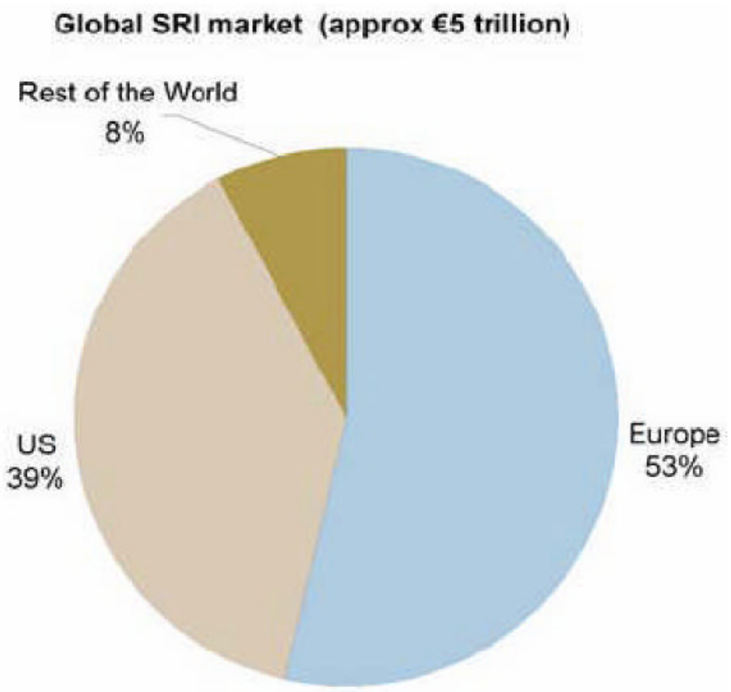
Notwithstanding, for there to be a meaningful progress in the corporate social and financial performance debate, corporate responsibility as an economic paradigm needs to either develop its own market or allow itself to be fitted into the dominant logic of calculation and singularization characteristic of the corporate financial performance project. If not, corporate responsibility and the financial markets will continue to be strange bedfellows leading to very mixed and inconclusive results on the link between corporate social and finance performance, respectively.

Appendix

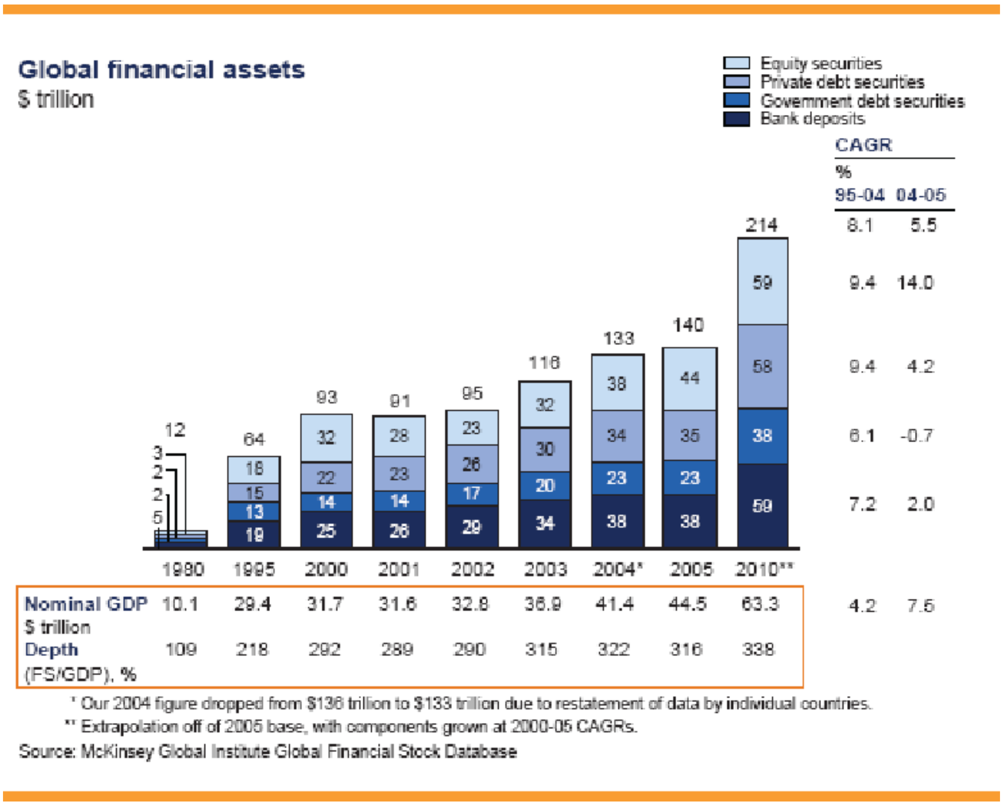
In Billions		2007	Total SRI	Total SRI in Euros
United States (2007)	Social Screening	US$2098	US$2710	€1917.3
	Shareholder Advocacy	US$739		
	Screening and Shareholder*	(US$151)		
	Community investing	US$26		
Canada (2006)	Core SRI	Cnd$57.4	Cnd$503.6	€333.6
	Broad SR	Cnd$446		
Australia / NZ (2007)	Core SRI	Au$19.4	Au$72.2	€41.4
	Broad SRI	Au$52.8		
Japan (30/09/2007)		Y840	Y 840	€5.5
Europe (2007)	Core SRI	€511.7	€2665.4	€2665.4
	Broad SRI	€2153.7		
TOTAL WORLD				€4963.2

Source: Social Investment Forum, RIAA, SIO, Eurosif, SIF-Japan.
Note: Exchange rate as of 10/09/2008.
** negative number to avoid double-counting*

Cited in Eurosif SRI Study, 2008:52)



Source: Social Investment Forum, RIAA, SIO, Eurosif, SIF-Japan (cited by Eurosif SRI Study 2008:52)



McKinsey Global Institute (2007:8)

Coding Questions and Criteria

- Show timeline of publications – is there an evolution in the ideas being raised? It may be interesting to have the time line for the 82 documents
- Which documents are most frequently cited in subsequent documents i.e. which are most influential? In addition to that we could do an analysis of websites to try to make a 'network' of the documents that are put in links by different organisations
- What is the purpose / belief / starting point of each document – as expressed in opening paragraphs (e.g. in order to improve business performance / enhance market value; e.g. to improve ESG performance; e.g. to justify case for greater mandatory reporting)?
- What vocabulary is used in the different documents: ESG, C(S)R, NFP, EFP et cetera?
- Does each document just assume a link between Corporate Social Performance and Corporate Financial Performance – or do authors try and make the link?
- Segment by type of author (business, accountancy company/body, CR coalition, Civil Society, multi-stakeholder group, investor groups, academic, and think-tank) and do different types of author/sponsoring body focus on different themes? Are there different conclusions as to obstacles/problems and solutions?
- What does each document offer? Principles, tools et cetera?
- What are obstacles identified (the original presentation made Sept 10 th seminar)?
- Solutions suggested: are they very similar or is there a very diverse range of solutions proposed?
- Do these vary depending on main target audience and main purpose of each document?

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