PROFESSIONAL ROLE IDENTITY AS A FILTER FOR INSTITUTIONAL CHANGE: THE CASE OF RESPONSIBLE INVESTMENT

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I

INTRODUCTION

In recent years, the asset management industry has experienced a rise in Responsible Investment (RI) demands. While the understanding and implementation of RI differs across contexts, at its core is the idea that "corporate social responsibility and societal concerns are valid parts of investment decisions."[2] RI is infused with broader social understandings related to responsibility and long-termism, whereby investors serve the society as a whole. With the increasing integration of RI into conventional funds, there has been a progressive transformation of the asset management industry – particularly, in terms of incorporating non-financial concerns in decision-making, emphasizing a long-term perspective, and increasing transparency and accountability. Together, these changes are geared towards restoring confidence in the sector and facilitating the recovery from the recent financial crisis.

In Europe, the transformation of the asset management industry has been particularly evident, with over a 90% increase in the number of investors adopting responsible investment strategies between 2009 and 2011, when European assets under management (AUM) have increased only by 3.8% (Eurosif, 2012). Recent studies have begun documenting this change and its impacts on the practices and institutional logics of the industry – describing this phenomenon as an on-going institutional change at the field level (Arjaliès, 2010; Beunza & Ferraro, 2011; Crifo & Mottis, 2011). The increase in RI, however, has not been uniform across the asset management profession. Interestingly, two factions of the asset management profession have evolved very distinct perspectives and responses to the increasing integration of RI in asset management. While fixed-income asset managers have largely resisted this change, equity asset managers have been much more receptive to it (Novethic, 2007a, 2007b; Principles for Responsible Investment, 2011).

Several studies have begun to explore the reasons behind these varied responses to RI and the difficulties of integrating RI into conventional funds. One stream of research, for example, has examined variations in responses in terms of financial techniques – mainly, the inability to integrate qualitative environmental, social and governance (ESG) criteria into the econometric models used in fixed-income investment (Arjaliès, 2013; Menz, 2010). Examining the US sub-prime mortgage crisis, Pozner, Stimmler, and Hirsch (2010) argue that micro-mechanisms at the organizational level, such as superstitious learning processes and strong competitive pressures to conform to popular practices, underpin the strategic persistence of structures and practices despite contraindications of their effectiveness. These micro-mechanisms, they argue, contribute to self-reinforcing cycles and biases that may cloud decision-making and lead to maladaptive changes at the institutional level. Insights into these types of micro-mechanisms may help explain why fixed-income asset managers were resistant to increasing demands for RI.

Employing a longitudinal ethnographic case study design, and drawing on multiple sources of data, we systematically compare the divergent responses of equity and fixed-income asset managers to the unfolding financial crisis and the associated demands for RI. Of particular

[2] Source: www.ussif.org

interest, are the ways that asset managers inhabit this institutional change – thereby exhibiting different understandings of, and responses to it. In line with previous work on the 'inhabited institutions' stream (Binder, 2007; Delbridge & Edwards, 2013), we argue that actors are variously influenced by professional logics in which they are embedded. We go further by showing how and why professional role identities shape managers' interpretations and responses to broader changes in the institutional environment. Our findings reveal that equity and fixed-income managers held distinctive understandings of their professional role identities – which, ultimately, led fixed-income managers to be more resistant to demands for RI compared to equity managers, who largely perceived the shift toward responsible investing as unavoidable.

While there seems to be agreement among institutional scholars that the institutional logics perspective provides a valuable lens by which to examine complex phenomenon – 'because it is built upon an integrated conceptual architecture that works at three levels of analysis (i.e. the individual, the organizational and the societal' (Delbridge & Edwards, 2013: 2; Also see Friedland & Alford, 1991; Thornton, Ocasio, & Lounsbury, 2012; Thornton & Ocasio, 2008) – to date, there have been relatively few cross-level studies investigating how logics filter down from the societal and field levels to the individual level. We wish to address this gap by offering a more nuanced understanding of 'professional logics' as a multi-level construct – such that institutional logics are not seamlessly enacted in organizations, but are interpreted and made sense of by locally situated professionals. Importantly, we demonstrate the variability in understandings and practices associated with professional logics as they filter down to lower levels of analysis. It is this 'filtering' process, we argue, that led these two groups of asset managers to hold such divergent views regarding increased demands for RI. Building on our findings, we develop a cross-level model detailing how key aspects of professional role identities led asset managers to rely on different response repertoires for engaging with their institutional environments. A better understanding of this iterative process sheds light on the complex interrelationships between professional logics, role identities, and inhabited institutions.

II

THEORETICAL CONTEXT

"Inhabited" Institutional Change

Recently, there has been growing scholarly interest in an 'inhabited' perspective of institutions and change (Bechky, 2011; Binder, 2007; Delbridge & Edwards, 2013; Hallett & Ventresca, 2006; Hallett, 2010). This view considers institutions as inhabited by people and their actions/activity (Scully & Creed, 1997). It centers, in other words, on how people and groups within organizations make sense of, interpret, and enact institutional prescriptions. By 're-coupling' broader institutional logics with actual social interaction, and grounding theories in the actions of people in organizations (Bechky, 2011; Reich, 2011), this perspective depicts organizations as more than merely instantiations of institutional logics (Binder, 2007; Greenwood, Raynard, Micelotta, Kodeih, & Lounsbury, 2011; Hallett, 2010). It thus complements and nuances earlier studies that focus on an organization's single

response to institutional change and tend to overlook actors' 'multiple local meanings, which also shape their practices'.

In her review of the 'inhabited institutions' perspective, Bechky (2011) highlights the dynamics underlying actors' and organizations' responses to changes in the institutional environment. She cites major studies that contribute to this stream, including Hallett's (2010) study of an elementary school confronted with pressures for reform, and Zbaracki's (1998) study of TQM adoption. Both studies demonstrate the complex reality underlying responses to institutional pressures – such that 'conformity' can be enacted in multiple ways through people's interpretations, meanings, and daily activity. Hallett's study, for example, shows that pressures for reform led to the hiring of a new principal who instigated new business-like practices that reduced the autonomy of teachers. The teachers, however, reacted strongly to these practices by voicing their discontent. As Bechky points out, several studies have begun to challenge the appearance of institutional conformity and the smooth enactment of institutional change.

Several scholars embracing the 'inhabited institutions' perspective have begun to explore the multiplicity and variability of interpretations of and responses to the same institutional pressures across 'differently professionalized staff' and across subunits and departments within the same organization (Binder, 2007: 551; Hallett & Ventresca, 2006). This variation in interpretation is important to account for in so far as it leads to different local meanings and different decisions about how to couple practices with environmental changes (Binder, 2007). Binder's (2007) ethnographic study of a transitional housing organization in the US, for example, showed how different departments differentially responded to an increase in federal funding. Binder argues that institutional logics are locally interpreted and negotiated among agentic actors, and goes on to show that responses to institutional pressures depend on members' local meaning systems, which emerge from professional commitments and interactions. Insights from her study draw attention to the role that professional membership and commitment play in shaping actors' interpretations and responses to institutional pressures.

Similarly, Edwards and Delbridge's (2013) examination of the luxury superyacht industry, provides an insightful illustration of how actors are differentially influenced by, and in turn, variously enact institutional logics. Their study reveals that independent designers' work is fundamentally influenced by professional logics (i.e. engineering and design) and the market/commercial logic. These logics, Edwards and Delbridge (2013: 5) argue, are 'neither uniformly shared nor enacted' – instead, the logics provide guiding principles that both enable and constrain action. In other words, actors understand and interpret logics differently, depending upon past circumstances and personal histories.

Studies drawing on the 'inhabited institutions' perspective reveal a number of important insights. First, they show how institutional logics shape, and are shaped by, individuals' interpretations, negotiations and social interactions (Bechky, 2011; Binder, 2007; Hallett, Shulman, Fine, & Adler, 2009; Reich, 2011). Second, they demonstrate how actors' interpretations are shaped, among other things, by day-to-day work and 'occupational membership' (Bechky, 2011: 1158; Hallett et al., 2009).

To further explore the role of 'professions' in shaping actors' interpretations and responses to changes in their institutional environment, we turn our attention to the literature on professional logics and professional role identities.

Professional logics and professional role identity

While literature in sociology has traditionally treated professions as a societal institution (Abbott, 1988; Bechky, 2011; Goodrick & Reay, 2011), literature in organizational theory has only recently directed attention to 'professional institutional logics'. Conceptualized as an institutional order in its own right (Thornton et al., 2012), the logic of professions has been shown to influence the work of professionals by providing broad guiding principles and values depending on the profession. For example, Dunn & Jones (2010) show how the profession of medicine historically derived its authority and legitimacy from scientific knowledge and expertise, and slowly integrated a care logic, which emphasizes physicians' clinical skills and preventive care they provide to their patients. For the most part, professional logics are articulated, promoted, and monitored by professional associations (Goodrick & Reay, 2011; Greenwood, Suddaby, & Hinings, 2002; Thornton et al., 2012), but actors outside the professional realm can also promote/enforce rules and regulations such as the state (Goodrick & Reay, 2011).

Much of the research on the dynamics between professional work and institutional logics contends that professional work is influenced by a 'constellation' of institutional logics (Dunn & Jones, 2010; Goodrick & Reay, 2011). Recent studies, for instance, show that the work of different professionals within an organization may reflect different institutional logics – such that some aspects of their work reflect attributes of one logic while other aspects reflect attributes of another (Goodrick & Reay, 2011). Examining the evolution of pharmacists' practices over time, Goodrick and Reay (2011) find that pharmacists' work is guided by multiple institutional logics, namely the market, corporate, professional and bureaucratic logics. Similarly, Nigam and Ocasio's (2010) study of Clinton's healthcare reform proposal reveals that the field-level logic of 'managed care' reflected a combination of multiple societal-level logics, including the logics of the market, bureaucracy and professions. In the study, they detail how field actors' sensemaking processes contributed to the emergence of the logic of managed care – which, effectively, reflected context-specific cultural beliefs and values, that underpinned prevailing material practices. These dynamics are also illustrated by Delbridge and Edwards' (2013) study, wherein the professional logics of engineering and design are found to intermingle with the market logic in influencing the actions and behaviors of professionals and organizations.

Together, these studies demonstrate how the logic of professions combines with other institutional logics to guide professional work. While this stream of research has enhanced our understanding of the dynamics between, and among, different institutional orders, we still know relatively little about how professionals interpret and respond to 'constellations' of logics. That is, there is a paucity of research on how professionals enact broader institutional logics *within* organizations – and how and why these 'enactments' differ. Speaking to this issue, Bechky (2011: 1160) laments that 'in most of the studies of professions as institutional systems, one rarely sees the people within organizations'.

A few studies have attempted to correct this oversight by shedding light on 'professional role identity' and its relationship with institutional change (Bechky, 2011; Chreim, Williams, & Hinings, 2007). Several studies, for instance, have examined the dynamic relationship between professional identity and broader changes in the institutional environment. In such studies, professional identity is often depicted as an individual's self-definition as a member of a profession, or as the enactment of a professional role (Chreim et al., 2007; Goodrick & Reay, 2011; Ibarra, 1999; Pratt & Dutton, 2000). Others take a more narrow view, defining professional identity as embracing one's professional self-concept based on 'the goals, values, beliefs, norms, interaction styles and time horizons that are typically associated with a role' (Ashforth, 2001: 5; Ibarra, 1999; Slay & Smith, 2011). Pratt et al. (2006) argue that professionals are defined by 'what they do', considering their actions as an important component of the way they define themselves.

The way that professionals perceive their professional role identity is key to their interpretations and actions in work situations (Chreim et al., 2007; Goodrick & Reay, 2011; Pratt et al., 2006). Glynn (2000), for example, shows that the professional identities of musicians and administrators within a symphony orchestra led them to hold different viewpoints on how the firm's resources should be allocated. While the musicians emphasized investment in artistry, administrators stressed fiscal responsibility and cost containment. In a different study, Lok (2010) observes that identity work at the micro level of analysis explains how and why some logics are embraced, while others are contested, resisted, translated and/or accommodated. These varied responses, he argues, depend upon the logics' alignment with an individual's professional attachments. Professional attachments and identification with a particular professional group not only shape member behaviors and actions, but also generate defensive tactics when a threat is perceived. As Mitchell, Parker & Giles (2011: 1325) note, 'a perception of risk regarding the diminution of a profession's expertise, values or occupational role' is typically met with resistance. Such threats often emerge when perceptions of professional standing or professional boundaries are jeopardized (Hornsey & Hogg, 2000; Mitchell et al., 2011).

In this paper, we seek to extend the above lines of inquiry and examine how actors interpret, adapt to, and contest institutional change – as they enact professional logics in their day-to-day activities. Specifically, we seek to understand the ways that professional role identity shapes how actors interpret and respond to changing demands in the broader institutional environment.

III

RESEARCH METHODS

Research Context

The recent financial crisis has already made history – simultaneously embodying crises in money, credit, banking, property, monetary, equities and sovereign and corporate bonds. The main catalysts of the crisis seem fairly clear in hindsight. First and foremost, was the US subprime mortgage crisis: a housing bubble in the form of complex structured credit securities that allowed banks to transform risky assets into apparent non-risky ones, while

transferring the risk of borrowers' default to the buyers. The subsequent anxiety about the high default risk of some financial assets and the reluctance of lending organizations to extend more credit, triggered concerns over liquidity and erroded confidence. These events, in turn, led to the collapse of some of the largest investment banks in the world. Faced with this turmoil, governments and central banks responded with unprecedented monetary policy expansion and institutional bailouts – in order to help restore investor confidence and restart financial investments. In spite of these efforts, fears of sovereign debt crisis continued to grow among investors from late 2009 onwards. These fears were exacerbated following the wave of government debt downgrading across various European countries – culminating in speculations of a possible breakup of the Eurozone.

Reflecting on the current crisis, the US Financial Crisis Inquiry Commission concluded that it could have been avoided had it not been for 'widespread failures in financial regulation; dramatic breakdowns in corporate governance; excessive borrowing and risk-taking by households and Wall Street; policy makers who were ill prepared for the crisis; and systemic breaches in accountability and ethics at all levels.' (US Financial Crisis Inquiry Commission, 2011). This account suggests that financial markets are not, as financial economists contend, objective efficient information processors, but social constructions that function as 'collective calculative devices' (Callon & Muniesa, 2005) – wherein market behavior is guided and constrained by prevailing institutional logics and the institutionalization of practices (Lounsbury & Hirsch, 2010; Zajac & Westphal, 2004).

In light of these criticisms, both investors and asset management companies have come under intense scrutiny from their so-called 'stakeholders' (Freeman, 1984). For many, responsible investment (RI) is a means to restore legitimacy and maintain the 'license to operate' – by, effectively, introducing non-financial criteria into investment processes. Disputes regarding the level of integration of RI into investment practices, however, have proven difficult to resolve. In particular, debates among two factions of the asset management profession – that of equity and fixed-income asset managers – have been especially heated. For the most part, fixed-income managers have been much more resistant to demands for RI compared to equity managers (Novethic, 2007a, 2007b; Principles for Responsible Investment, 2011). For instance, only 15% of the investors who already adopted RI fixed-income strategies made advances in their methodology used to rate Eurozone countries and their debt since the beginning of the crisis (Novethic, 2012).[3]

Given the state of the financial markets, SRI Invest – a small asset management company, subsidiary of one of the largest French mutual insurance companies managing €2 billion and specialized in RI since 1997 – faced increasing pressure to incorporate RI demands in its funds. Particularly problematic was the integration of RI criteria into fixed-income funds, compared to equity ones. In response to these challenges, the CEO of SRI Invest launched

[3] The paper focuses on the investment grades fixed-income asset managers. A security is considered to be "investment grade" if it has an S&P rating of BBB- or higher, a Moody's rating of Baa3 or higher, a Fitch rating of BBB- or higher, or if it has the equivalent minimum rating from another nationally recognized credit rating agency. Below investment grade fixed income securities are often referred to as "junk bonds".

two small working groups, consisting of 8 representatives, in September 2007. The goal set out for each group was to (re) design the investment processes of equity and fixed-income investment funds, respectively. While each group consisted of similar sets of Department representatives, the asset managers leading the groups differed. One asset manager specialized in equity investments, while the other specialized in fixed income investments. Equity investment consists of buying shares in anticipation of their future value in the stock market. Fixed-income investment, on the other hand, revolves around lending money to borrowers – such as a company or a public issuer (e.g. government or a local municipality) – in exchange for principal plus interest.

Research Design

This paper builds on an ethnographic case study, together with a longitudinal field study, conducted within the French asset management sector. Ethnographies involve intensive fieldwork, employing participant observation and close connections with subjects and situations under study. In most cases, the ultimate goal of an ethnography is to uncover the tacit knowledge and rules that govern everyday behavior. An ethnographic approach seemed appropriate as we were interested in identifying and understanding practice 'as it happens' (Schatzki, 2005). To probe the details of intra-organizational life and logics 'in action', the lead researcher became 'fully immersed in the research setting' (Adler & Adler, 1987). Between 2006 and 2009, she undertook extensive ethnographic fieldwork to examine the day-to-day practices of SRI Invest – effectively, serving as an RI analyst. Her responsibility for the RI aspects of the (re) design of the funds' investment processes, gave her complete access to all the meetings and documents of both working groups (e.g. invitations to tender, e-mails, minutes of the meetings, financial and SRI databases and so on).[4]

This study is part of a broader research project that explores how the logics of the French asset management sector have changed over the past decade. In this paper, our aim is to 'zoom in' and 'zoom out' (Nicolini, 2009) on the interplay between professional role identity and institutional change at the practice level by providing an in-depth, systematic analysis of how two working groups responded to pressures to redesign the investment practices related to two product categories – equity and fixed-income investment.

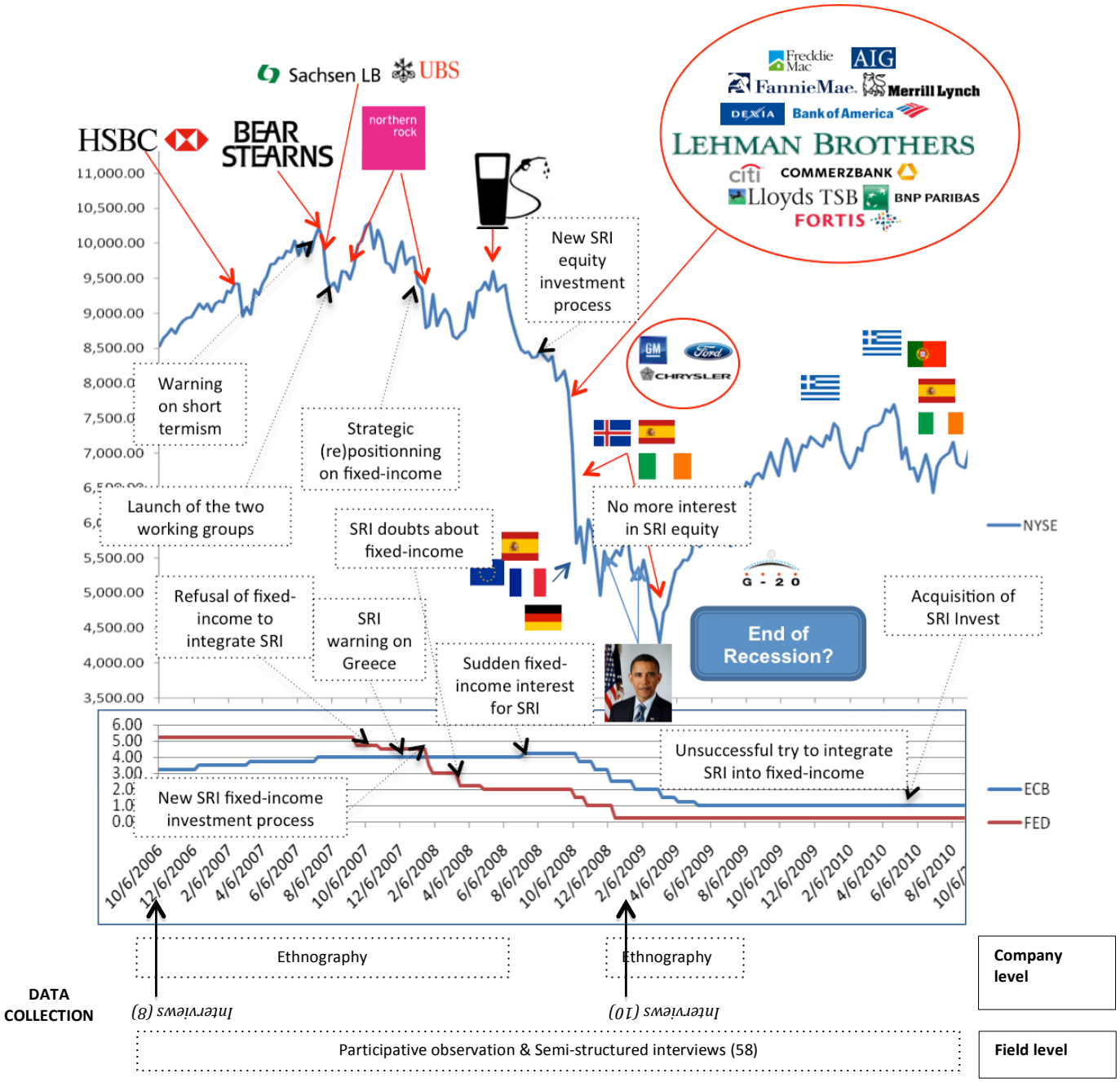
We draw on data collected from 62 interviews, field notes, and organizational documents. The interviews, conducted by the lead author, consist of four sets of interviews. The first two sets are comprised of a series of semi-structured interviews with each member of the working groups (two people were recruited in the mean time). They occured before the launch of the groups and six months after the end of the re-design to gather their viewpoints on the situation before and after the re-design. The second set of interviews was conducted with field-level informants from 2007 to 2010. These interviews were intended to supplement the previous set of interviews, and help provide a broader picture of the financial crisis as it unfolded. Lastly, we conducted several follow-up interviews from 2011 onwards with different actors in the asset management industry (e.g. asset managers, asset

[4] This 'full membership' pass was made possible through a doctoral research contract between the company, the research laboratory, and the doctoral student – as under the stipulation of the French Ministry of Research. According to this contract, the field researcher is permitted to use all the data gathered for academic purposes.

owners, SRI and credit rating analysts) in order to track the changes that had occurred in both types of asset management. We then supplemented this interview data with secondary data sources, such as professional reports and media coverage.

We used this data to build an 'event history' (Garud & Rappa, 1994; Tracey, Philipps, & Jarvis, 2011) detailing the key sequences of events. The data was then analysed inductively to understand how and why broader changes in the institutional environment generate different interpretations and responses. We also conducted an in-depth comparative analysis of the similarities and differences between two professional working groups (Eisenhardt & Graebner, 2007; Eisenhardt, 1989). This comparison allowed us to identify patterns and themes, and emphasize the different ways in which each group responded to the financial crisis and the associated demands for RI. Figure 1 details the timeline of the study.

Figure 1 : Timeline of the study



IV

THE CASE STUDY

Before the summer of 2007 (i.e. the launch of the working groups), the funds of SRI Invest performed quite well from a financial perspective. However, although it had been among the first asset management companies to offer RI funds, it was increasingly overlooked for invitations to tender. In response to this predicament, the CEO with the help of several consultants carefully studied competitors, and concluded that SRI Invests' RI funds were not innovative enough compared to those of its peers. This conclusion led to the formation of two working groups, tasked with the mission to re-design investment processes in equity and fixed income, respectively. Not long after these working groups were formed, the UK experienced its first run on a bank in over a century, with the systematic collapse of Northern Rock in September 2007. The collapse of Northen Rock triggered initial warning signs of a potential financial crisis – signs which were further accentuated by the Federal Reserve's decreasing interest rate. In response, the top management team, equity asset managers and RI analysts at SRI Invest turned their attention to RI, as a means to restore the link between the share value and the "real" performance of the company, thereby aiming to select the companies more likely to resist the financial crisis. With this in mind, the equity working group sought to profoundly re-design the investment processes, integrating both financial and non-financial concerns into the decision-making process, and developing tools to do so.

The fixed-income working group, in contrast, had difficulties understanding what RI could add. For them, investment decisions were made based on macro-economic factors, such as the interest rates issued by the European Central Bank and the yield curve. The behaviors of issuers themselves seemed to have little impact on the interest rates and credit risks associated with the bonds. Based on this line of reasoning, the fixed-income asset manager did not see the value in integrating RI into investment decisions. Instead, he placed priority on addressing the burgeoning liquidity problems and bad market conditions over RI – viewing RI as outside the boundaries of his job. The CEO accepted his decision, believing that the assets of SRI Invest needed to be protected and that the financial performance of fixed-income funds should take precedence over (re)design efforts. RI analysts, however, strongly disagreed with this choice – given that the information they received from social rating agencies often contradicted that of credit ratings. They were worried, in particular, about decisions to invest in countries such as Italy and Greece, for which the fundamentals of the "real" economy did not appear sustainable (ex: high level of corruption, governance problem, etc.).

Up until 2008, RI analysts were repeatedly unsuccessful in putting RI on the agenda of fixed-income managers. However, this situation began to change following the Kerviel fraud at the Société Générale bank. In January 2008, the bank announced that a junior futures trader had conducted unauthorized trades, totaling as much as €49.9 billion – ultimately, leading to losses estimated at €4.9 billion. Following this incident, the market experienced a large drop in equity indices, and public scrutiny of the inner workings of financial markets intensified. The destabilizing effects of this incident were widely felt in the equity market – as fears about the nationalization of banks spread.

The Kerfiel incident had two direct consequences for SRI Invest. First, given the growing instability of the equity market SRI Invest began placing a greater emphasis on re-designing fixed-income investment funds. Second, the board and the top management team began implementing new internal control procedures in order to address vulnerabilities and to prevent incidents like that of the Kerviel affair. This push for more internal control and monitoring had strong support from clients, who sought reassurance that their assets were for secure.

RI analysts' insistence on imposing RI constraints on fixed-income investments began to gain traction following the Kerviel incident. They managed, for instance, to convince the CEO of the need to control the content of portfolios, and to inhibit the use of 'greenwashing' tactics. The CEO agreed, advocating that issuers with low social ratings represent a small percentage of the issuers among portfolios. In addition, the CEO advised that all assets be controlled by RI analysts, in order to ensure that asset managers respected the RI constraints (for instance, the best RI issuers should represent at least 50% of the assets of the portfolio). The fixed-income manager, however, opposed these decisions – as they precluded investments in Greece and Italy, two countries with poor RI ratings, but high financial potential (i.e. in terms of risks/return). The fixed-income manager openly questioned the ability of RI analysts to provide better analyses than credit ratings agencies. From his perspective, adding RI constraints would not only hamper his ability to do his job, but also threaten the financial performance of the funds. In light of this opposition, the CEO asked RI analysts to find a solution. In the end, the RI analysts agreed to temper the RI constraints by authorizing 10% of the assets be invested in countries with poor RI ratings, such as Greece.

In July 2008, the new RI equity investment processes were implemented, and equity managers began integrating both RI and financial criteria into portfolio selections. They believed that doing so would help them select companies that were more likely to succeed – i.e. by identifying those companies with a sustainable business model. Both asset managers and RI analysts found these new equity investment processes particurlarly innovative and promising. In contrast, RI analysts were relatively skeptical about the new fixed-income investment processes. They doubted the impact that the RI constraint would have on the content of portfolios, and suspected that asset managers might be 'hiding' investments in Greece by using swaps – meaning that Greece would not officially appear on the portfolio, despite being a part of it. To address these concerns, the RI analysts asked the CEO to reinforce the RI constraint. The CEO, however, refused – as the liquidity conditions were becoming increasingly problematic, and the Federal Reserve continued to decrease its interest rate. During this period, fixed-income investment RI invitations to tender increased, thus, garnering SRI Invest new assets.

One year later, Iceland, Ireland and Spain were downgraded by the credit rating agencies. Some changes seemed to appear in fixed-income investment: credit rating analysts and asset managers started looking at the RI analyses provided in the previous years. They wondered whether they missed something, compared to the equity market which had integrated RI to a large extent. But it was too late, SRI Invest had lost half of its assets. In 2010, it was purchased by a bigger asset management company, which aimed to make the most of its know-how in terms of RI. A new young fixed-income asset manager was specifically recruited to work on RI fixed-income investment. Before leaving, both the CEO and the

fixed-income manager admitted that integrating RI into fixed-income investment decisions might have the more prudent route, but it was too early.

V

THE ROLE OF PROFESSIONAL ROLE IDENTITY AS A FILTER FOR INSTITUTIONAL CHANGE

The overarching logic guiding the asset management profession is inextricably tied to market capitalism. As a professional group, asset managers, both those involved in equity and fixed-income investments, aim to maximize profits by optimizing risk and return – effectively, being guided by economic theories, such as portfolio theory (i.e. equity) and the yield curve (i.e. fixed-income). Despite being exposed to similar 'prescribed' goals, equity and fixed-income managers enact the professional logic of asset management in different ways – with each faction subscribing to distinct professional role identities. Our findings reveal that these distinct role identities shaped how the asset managers responded to changes in the broader institutional environment. Below, we detail the processes of *implementation* and *theorization* that comprise the managers' responses to increased pressures to integrate RI in investment decisions.

Implementation

Our study shows three main differences between equity and fixed-income asset managers in terms of how they reacted to the financial crisis and its associated demands for RI. First, equity asset managers were relatively quick to heed the warning signs of an impending financial crisis – readily acknowledging the need to drastically redesign equity investment practices. Fixed income managers, in contrast, were not only slower to recognize the warning signs, but also largely reluctant to change decision-making processes and practices.

Second, equity asset managers proactively responded to increasing demands for RI by integrating RI into the heart of their investment decisions. Fixed-income asset managers, however, resisted and challenged demands for RI on the grounds of their strong beliefs in financial models. For them, the adoption of RI was coerced; and they stuggled to limit any form of RI constraint.

Last, and perhaps most surprisingly, fixed-income managers were much more successful than equity managers (in terms of grasping new clients' assetss) – despite the refusal of fixed-income asset managers to integrate in-depth RI demands in investment processes. In contrast, equity managers were suffering. Following the financial crisis, many clients were reluctant to invest in higher-risk investments although RI provided a potential means to generate better financial performance and helped investors restore legitimacy vis-à-vis their stakeholders.

> What is paradoxical today is that the market context proves debt management right, which is just incredible. What are sold today are fixed-income funds whereas the most advanced work has been made in equity investment.
>
> Equity asset manager, 2009

Theorization

Each professional group framed the new RI demands differently – and this framing affected how these demands were translated into practices. While equity asset managers perceived RI as an opportunity to enrich their investment processes, fixed-income asset managers viewed RI as an additional constraint, which threated their ability to manage risks and improve financial performance. Indeed, in equity investment, RI seemed to address some of the shortcomings of previous investment processes. For instance, following the Kerviel affair at the Societé Générale in 2008, RI analysts and asset managers started working on governance controls, which could help companies identify and address vulnerabilities to fraud and unauthorized trading.

Several facets of professional role identity played an important role in shaping how equity and fixed-income asset managers framed the new RI demands. These facets of professional role identity relate to asset managers' definition of 'who they are' as professionals and 'what they do' – i.e., *professional status*, *competencies and expertise*, *means* (tools and cognitive processes), *knowledge*, and *values* (particularly, the relationship to society). Importantly, these facets serve to delineate the boundaries between both professional groups, and to drive particular courses of action. Table 1 provides a summary of key facets of the professional role identities of equity and fixed income asset managers.

Professional status. Fixed-income asset managers perceived themselves as being 'superior' to RI analysts – a hierarchy that RI analysts tended to accept. In light of this status differential, RI analysts were often required to acquiesce to fixed-income asset managers' demands; and their advice was seldom heeded when it opposed short-term financial decisions. This was notably the case in December 2007, when RI analysts were pressured to lessen the RI constraints that precluded Greece and Italy from being included in the fixed-income portfolios. Despite RI analysts' warnings about the shortcomings of issuers with poor social ratings, both the CEO and fixed-income asset managers kept favouring these issuers in investment portfolios. One of the arguments against heading the advice of RI analysts was their lack of financial background, and the inability to directly measure the relationship between RI criteria and risk and financial performance.

The relative status of fixed-income asset managers was further bolstered by the gradual shift in clients' demands from equity to fixed-income investment. In the wake of this shift, equity asset managers saw the financial performance of their funds dramatically decrease and their contribution to the wealth of the company dwindle. Together, these changes fueled the perception of fixed-income investment as the key to the company's survival – such that, fixed-income managers were seen as protecting existing assets, and the source for obtaining new clients. The fixed-income asset managers made the most of their key role in the increasingly precarious financial market. They justified their lack of commitment to the re-

design process by arguing that RI was of less importance compared to the problem of liquidity.

Competencies and expertise. The relatively high professional status of fixed-income managers was further nurtured by the perception that fixed-income investment was more technical and complicated than equity investment. Such perceptions were used by fixed-income managers to argue that the RI re-design occurring in equity investment were not appropriate in fixed-income investment. Perceptions of technical superiority also found its origins in the education background of both types of asset managers. While equity managers graduated with degrees in economics and finance, most fixed-income managers studied econometrics and/or statistics.

> I want to be careful about my wording not to upset my equity colleagues but fixed-income investment is technically more difficult to grasp than equity investment. It also gets less media attention.
>
> Fixed-income asset manager, 2009

Means - tools and cognitive operations. Differences in the ways that each group of asset managers relate to time and the real economy, as well as the form of rationality embodied in their investment decisions are key factors in explaining their varied responses to RI demands. These differences provide important insights into the greater reluctance of fixed-income managers to integrate RI demands into their investment processes than equity managers. In the minds of fixed-income managers, the financial performance of investments had little to do with the actual issuers' behaviours. Part of the reason behind this 'decoupled' view relates to the type of cognitive operations that fixed-income managers use to select an issuer. Indeed, when lending money to a borrower, the fixed-income asset manager focuses on the interest rate and the reimbursement period associated with the bond. The goal is to select the issuer with the best ratio risk of going bankrupt/interest rate. Risks and interest rates are mainly influenced by macro-economic factors such as the European Central Bank's rates – rather than being impacted by the issuers themselves. Therefore, the fixed-income asset manager was above all interested in the present market conditions, and less in the sustainability of issuers – provided they do not go bankrupt. However, given the low risk profile of targeted issuers, this risk was perceived as very unlikely by most observers.

> It is not because the company behaves badly that the bond it has issued will also behave badly. A bond obeys a macro-economic environment. It does not obey the company, except if it disappears, but it is mainly the national and international environment that will impact fixed-income securities.
>
> Project manager, 2009

In addition, fixed-income managers often rely heavily on financial models – believing them to be more rational and sure than those used by equity managers. This belief heightened fixed-income managers' confidence in their decision-making processes, and underpinned their reluctance to change investment practices through integrating qualitative RI criteria.

> Fixed-income investment consists of actuarial analysis and agencies' ratings. How can we add RI to that?
>
> CEO, 2009

Conversely, equity managers were more attuned to integrate non-financial concerns, and were much more willing take a step back from their models (cf. Arjaliès (2013) for a detailed explanation on the role of calculative devices in each type of investment). For equity managers, RI was perceived as a way to identify those 'promising' companies with sustainable business models. By grounding investment decisions in an explicit set of criteria as opposed to speculative behavior, RI was viewed as a means to restore a longer-term perspective on investments, and improve the financial performance of the company's equity investments.

Knowledge. Another reason why fixed-income managers were reluctant to integrate RI concerns into investment processes was that they were not convinced of the relationship between non-financial criteria and the probability of going bankrupt (i.e. the main risk associated with fixed-income investment). Firstly, RI analysts could not provide any advice about which issuer should be favoured from a bankrupcy perspective. Secondly, while RI analysts criticized financial models that do not take into account sustainability, they were unable to provide fixed-income managers with an alternative model. In reflecting on an asset manager's request for information regarding the relationship between RI criteria and the probability of going bankrupt, an RI analyst responded:

> I found it very positive, except for the content of the request. I remember very clearly that he asked us to identify the factors that will impact a company's value. So in short, he asked us to find the 'philosopher's stone' of RI. […] To find the essence that all asset management companies are looking for today, an essence they aren't finding. They aren't finding it because it's a bit too early, there are no historical data and they find it difficult to identify all these things.
>
> RI analyst, 2009

In addition, given that they did not share the same 'tools', cooperation between fixed-income managers and RI analysts proved difficult to sustain.

Values (relationship to society). The tools and cognitive operations (cf. above) used by fixed-income managers to select issuers had several consequences on how the fixed-income managers perceived their relationships to society, and therefore the financial crisis and the relevance of RI. Firstly, the factors that generated low social ratings for issuers were not expected to directly (and in the short term) impact the financial performance of fixed-income funds. Indeed, the bankruptcy risk of issuers in the US and Europe was believed to be low, given that the American and European economy were fairing quite well – particularly in comparison to the economic situation leading up to the Asian financial crisis in 1997 or that of Argentina in 1999. As a consequence, there seemed to be no need to reconcile investment decisions with conditions in the real economy.

Secondly, fixed-income managers argued that RI appeared to have very little financial payoff since the market did not directly reward sustainable behaviours. Equity managers,

conversely, perceived sustainability practices as enriching the future value of companies – in that they addressed growing stakeholder demands for accountability and helped to shield companies from other risks. Other reasons for fixed-income managers' reluctanct to integrate RI include the short-term view favoured during the financial crisis (the rotation rate of the portfolio was very high), and the technical constraints on fixed-income investment, e.g. the limited number of issuers. By adding constraints, RI was perceived as an additional threat to fixed-income investment – a threat which should be avoided during this period of turmoil.

> We know that in France, the state takes time to pay its suppliers, that some SMEs go bankrupt because of that. But we also need to be realistic; the main debt issuer is the French state. So, even if they do not pay its suppliers, we will not exclude it.
>
> CEO, 2009

Thirdly, given the importance of macro-economic factors and lack of ownership (they only owned the debt), fixed-income managers did not believe that they could influence issuers' behaviours, especially public ones. The collective belief shared by the industry was that the financial crisis did not result from misconduct on the part of fixed-income managers. Rather, fixed-income managers were often depicted as the victims of the misinformation provided by credit rating agencies, as well as the dishonest behaviours of countries, such as Greece. Criticims of their financial models, such as the yield curve, were seldom heard. According to most fixed-income managers, it was not the financial models that were wrong, but instead, the market information they received that was wrong. As a result, fixed-income managers were not strongly motivated or pressured to radically re-think the fundamentals of their investment processes – thus, partially explaining why they did not believe that adopting RI could trigger change.

Table 1: Main differences in terms of professional role identity between equity and fixed-income investment that explained the different forms of filtering

	Equity Investment	**Fixed-Income Investment**
Education & Training	Economics, finance	Econometrics, statistics, mathematics, scientific education (engineer schools)
Personal preferences & Analytical style	Intuitive; instinctive; influenced by personal preferences and experience (e.g. behavioral finance or the psychology of investment decisions); tacit knowledge and 'savoir faire'.	Rational/scientific; mathematically driven (i.e., emphasis on numbers or figures).
Relationship to financial tools	Use financial and business criteria to make investment decisions; use models as a way to 'control' investment decisions; integrate qualitative/non-financial criteria in investment decisions.	Heavy reliance on financial/econometrics models to frame investment decisions; financial criteria used directly in models; emphasis on financial criteria in investment decisions.
Relationship to time, reality and risks	Future-oriented; risky investment; based on speculative behavior – although the more comprehensive set of decision factors are perceived as being closer to 'economic reality'.	Present-oriented, investment decisions perceived as less risky and more predictable – since they are based on 'hard' numbers; detached from 'economic reality' (dependent on interest rates set by the federal reserve, less on issuers themselves, which leads to permanent arbitrage).

VI

THE ROLE OF FIELD-LEVEL AND SOCIETAL-LEVEL ACTORS IN THE FILTERING PROCESS

Through their (lack of) commitment, several actors participated in explaining why asset managers differentially understood and responded to the demands for RI, to wit: clients, the professional bodies, the State(s) and the citizens.

Clients

Fixed-income managers were encouraged to resist RI by the clients' (i.e. asset owners) themselves. Indeed, especially during the financial crisis, institutional investors – the main clients of SRI invest and the publicly very tenants of RI – did not want to threat the security of their fixed-income assets, which represented around 75% of their total assets. This position was ambiguous. On the one hand, they increasingly asked for more RI whether it was for legitimacy, reputational and/or ethical reasons. They even acknowledged that it should make sense from a risk perspective: those companies or states with a more sustainable policy should shield themselves from risks such as pollution or even bankruptcy (at least, from a theoretical perspective). On the other hand, due to their fiduciary duty vis-à-vis their beneficiaries and the chaos in which the markets seemed to be, they did not want to

try to innovate. This certainly explained why they contended with the solution suggested by SRI Invest despite being little innovative. In contrast, they were encouraging equity investment to suggest very innovative ideas, since they knew that the added value of an equity manager was in his/her ability to obtain additional information, compared to the market. With this in mind, non-financial information was perceived as enriching the equity investment processes.

> In equity investment, we want the asset manager to be freed up whereas in fixed-income investment, we want to constrain the asset manager. The logic of RI is completely different.
>
> Director of Development and SRI, 2009

This asset owner's behavior was also encouraged by regulatory constraints on the bank and insurance sectors, such as Solvency II and Basle III, which conveyed the idea that fixed-income investment was a secure type of investment and forced institutional investors to shift from equity to fixed-income investment to protect their assets.

> Investors are shifting to secure types of products, with fewer risks. Asset management companies are obliged to adapt investment processes to this demand. In 2006 and 2007, there was a move towards equity RI but now in 2009, clearly, only RI fixed-income funds are being sold. RI fixed-income funds have clearly benefited from the financial crisis.
>
> Project manager, 2009

The reluctance of clients was also explained by the asymmetry of information (and thereby power) between fixed-income managers and them, which clearly increased the power of the fixed-income managers. Fixed-income managers nurtured clients' fear by insisting on the constraints that RI would add and the technical difficulties generated by such demands. As explained above by the fixed-income manager, this type of investment was less well known compared to equity investment. This was particularly the case for institutional clients with no in-house asset management. For those who had technical knowledge on fixed-income investment, they tended to share the same views as fixed-income managers since they often belonged to the same profession. Additionally, despite the crisis, fixed-income investment did keep interesting clients: the business pressure was much lower than in equity investment. As a consequence, fixed-income managers were powerful enough to maintain their practices and to offer RI fixed-income investments very close to conventional ones.

Professional bodies

Until February 2007, the performance of equity and fixed-income investment was pretty good and nobody wanted to trigger change by publicly worrying about the dangers of short-termism or speculative behaviors. However, behind the doors, analysts and asset managers were worried: they observed an increasing decoupling between the value of shares and the actual performance of companies. RI was gaining momentum in equity investment : both asset owners and asset managers started acknowledging the need for a more long-term perspective in investment processes based on the 'fundamentals' of the real economy. By

(re)integrating non-financial concerns into the analysis of companies, RI could contribute to this move towards sustainability. Professional bodies, such as the French professional association or the lobby promoting French financial markets, clearly participated in conveying this idea. For instance, from 2005 onwards, they published several reports on the need for Paris (and Europe) to reinforce its expertise in RI as a way to distinguish from other markets (in both equity and fixed-income investment). In doing so, they made RI an unavoidable institutional change. However, they did not reflect (until very recently) on what it meant to adopt RI in fixed-income investment. For years, RI analysts attempted to translate the equity approach to RI to fixed-income investment, which proved almost impossible given the differences between both types of investment. In addition to the little work conducted by academics on fixed-income investment and RI, this lack of collective thought by the profession also explained why no alternative models seemed to exist. In short, while professional bodies contribute to put RI at the agenda of asset managers, it did not help fixed-income managers make sense of what RI meant for them.

The State(s)

Last but not least, given that States also issued bonds, obvious conflicts of interests made stronger regulation of this market perhaps more difficult. In addition, the market dogma that kept dominating during the financial crisis – almost all governments aimed to reinsure the markets and prevented any looses due to sovereign bankrupt (especially in Europe) contributed to the shared belief that fixed-income investment remained a secure type of investment, compared to other classes of assets. The low interest rates maintained by the European Central Bank and the Federal Reserve facilitated credit and thereby also contributed to the low business pressure on the fixed-income investment market (though being little profitable, but protection of assets was deemed essential). Governments demanded no alternative model and this did not appear as a main priority in bodies, such as the European Commission or Central Banks. This did not encourage fixed-income asset managers question their models and integrate RI concerns.

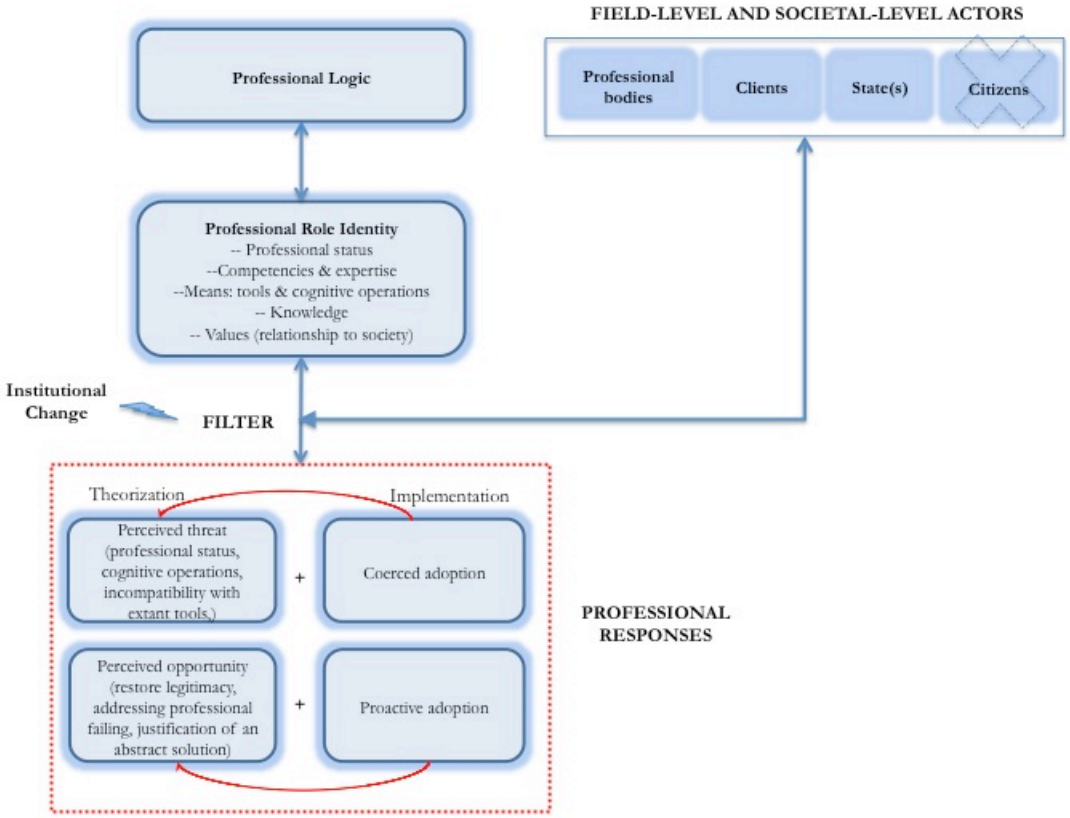
Citizens (missing role)

The lack of societal critics targeting specifically fixed-income investment also explained why fixed-income managers could maintain their practices while the rest of the industry seemed under pressure. Even critical organizations, such as NGOs, remained largely silent on this topic. The main focus of the society kept being on equity investment and in other forms of investment (e.g. subprimes) or problems in terms of regulation. As a result, the pressure for generating new knowledge and questioning the existing financial models in-use remained very low.

As we looked at the previous analysis, four main findings then became apparent. Firstly, the professional role identity associated which each type of investment (i.e. asset manager) acted as a filter for processing institutional change – whether it is the financial crisis or the associated demands for RI. Secondly, the differences in terms of professional role identity between both types of investment explained why the fixed-income group interpreted the new demand for RI as threatening while the equity group experienced it as potentially enriching. Thirdly, each investment group resorted to a bounded variety of cultural materials

and knowledge, associated with their professional identity, to respond to the demands for RI. Fourthly, this filtering was facilitating by the (lack of) role of actors belonging to the field and societal levels, mainly the clients, the professional bodies, the State and the citizens. Based on these findings, Figure 2 summarizes the key mechanisms through which professional role identity filters institutional change.

Figure 2: Professional role identity as a filter for institutional change



VII

CONCLUDING COMMENTS

This study investigates the role of professional identity in shaping interpretations and responses to changes in the broader institutional environment – thereby answering recent calls to examine the 'dynamics of occupations and work' in institutional analysis (Bechky, 2011: 1159). We do so by investigating how asset managers differentially interpret and respond to the increasing pressures to integrate RI demands in their investment processes in the wake of the financial crisis. As such, our findings reveal that while the fixed-income managers perceived the increasing RI demands as a threat – maintaining their practices during the financial critics – the equity managers saw it as a potential opportunity to enrich their professional roles – perceiving RI as almost unavoidable. These various interpretations

and responses were based on whether managers interpret the introduction of the new logic as threatening to their professional role identity. Professional role identity is hence considered as a lens through which, professionals theorize and respond to the changes in their institutional environment.

Specifically, we show how societal level professional logics (Thornton et al., 2012) – which provide actors within the same professional boundaries with a common sense of purpose and prescribe common goals, practices and identities – are integrated within organizations and occupational groups through everyday work practices and actions, which form the basis of their professional role identity. They hence filter down to the field and individual levels. As such, logics are neither uniformly interpreted nor enacted. Indeed, the professional logic of asset management is centered around investing and making profit – goals that are shared by all members of the profession. Yet, the increasing demands to integrate RI in investment processes were not interpreted and 'adopted' in the same fashion. We argue that a key mechanism at play is the 'professional role identity' of asset managers, particularly shown in how both groups invoked a set of values, status, tools, expertise and knowledge to explain their response strategy.

We hence conceptualize professional role identity as the key construct that explains why on the one hand equity asset managers perceived RI demands as an opportunity and proactively adopted it – thereby construing it as compatible with their enactment of the asset management professional logic; and why, on the other hand, fixed-income asset managers perceived the increasing RI demands as a threat that they subsequently sought to avoid – thereby construing these demands as incompatible with their enactment of the asset management professional logic. Previous studies have implied that the degree of consistency between goals and practices of multiple institutional logics determines the responses/strategies mobilized (Greenwood et al., 2011; Oliver, 1991; Pache & Santos, 2010). Our study shows the importance of professional role identity in how professional groups construe the compatibility between two logics. By doing so, we advance extant research on institutional logics and professional identity by analytically unpacking the complex relationship between professional role identities and the broader institutional environment.

Further, we uncover the mechanisms operating at and between different levels of analysis (the societal sphere, the field, the individual action). We argue that another mechanism at play is the influence of field-level and societal-level actors who precipitate one or another course of action. By examining how professional bodies, asset owners, the State and citizens (did not) promote broad goals and expectations, we shed light on how ties and interactions with actors outside the professional boundaries constrain action but are also invoked to 'justify' it and reinforce the way institutional change is theorized and responded to.

Several limitations should be addressed in the future. Firstly, the paper has tended to merge corporate and sovereign debt throughout the analysis. While it made sense since the focus of the paper was on fixed-income investment as a whole and those are the same fixed-income asset managers who invest in both issuers, further work could explore the differences between both. Also, further work coud be done on non-investment grades fixed-income asset managers, who are less adverse to risk. Secondly, the case study stopped in 2010. Yet, the industry seems to have faced some changes since then. For instance, a task force on

fixed-income investment within the PRI (Principles for Responsible Investment) was created in 2011, whose recommendations should be issued during the first semester of 2013. Asset management companies and social rating agencies have also shown greater interest in fixed-income investment, with the launch of new products over the past years. Informal discussions with credit analysts led us to think that changes have occurred in sovereign debt towards a greater integration of RI – our interviewees referring to a "pre and post Greece" situation (nothing seems to have been done in corporate debt) or describing the debt crisis as a "copernician revolution". Further data could be collected in the future to identify whether change has actually happened and uncover the triggers. This could enable us to test our model by exploring what dimension(s) of asset managers' professional role identity played out, and the field/societal-level actors that precipitated or thwarted this change.

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