INSTITUTIONAL COMPLEXITY IN A TRANSITION FIELD:
RESPONSIBLE INVESTMENT IN THE EUROPEAN ASSET MANAGEMENT INDUSTRY (WORKING PAPER – DO NOT QUOTE)

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EXTENDED ABSTRACT
Over the past years, several scholars have tried to understand the processes and mechanisms underlying field-level institutional change. Doing so entails an investigation of how institutional logics are disturbed and amended and how organizations cope with these logics (Thornton & Ocasio, 2008). At an industry level, logics consist of the ‘identities and valuation orders that structure the decision making and practices of players in a product market’ (Thornton & Ocasio, 1999:805). However, undertaking this is by no means a straightforward task. We know from recent work that institutional environments are often fragmented (Lounsbury, 2007) and governed by multiple and competing logics that can co-exist (cf. Dunn & Jones, 2010). Since logics are typically multiple, they provide alternative meanings which are subject to diverse interpretations, manipulation, and contestation (Friedland & Alford, 1991). Since they are typically in conflict, they foster incompatible prescriptions upon the organizations in the industry (Lounsbury, 2007) in a situation known as ‘institutional complexity’ (Greenwood, Diaz, Li, & Lorente, 2010). Institutional complexity thus asserts that while organizations are subject to institutional pressures, they are concurrently embedded in rational action and have to make decisions by making sense of their institutional environments and technical considerations (cf. Battilana, Leca, & Boxenbaum, 2009; D'Aunno, Succi, & Alexander, 2000; Greenwood & Hinings, 1996; Kraatz & Block, 2008).

Examining the logics in themselves, the dynamics between logics, and the experiences of the organizations that cope with these logics in the context of institutional complexity has merited scholarly attention. However, the difficulty underlying this task has brought scholars such as
Greenwood et al. (2011) to caution in a recent literature review that empirical work on these processes is ‘scattered and largely suggestive’. Similarly, while previous work has shown how logics may be transformed ‘through various mechanisms’, calls abound for a better understanding of ‘how strategic responses to such complexity are conceptualized and implemented’ (Thornton, Ocasio, & Lounsbury, 2012) and for systematic predictions about the ways in which organizations respond to such conflict (Pache & Santos, 2010).

In response to these calls, we highlight that a key neglect is found within studies examining the relationship between field-level structure and the experience of institutional complexity (Greenwood et al., 2011), particularly in relation to a field’s level of stability. Indeed, previous research has tended to study how institutional change can occur in mature and emergent fields wherein logics are highly theorized. Theorization consists of “the development and specification of abstract categories and the elaboration of a chain of causes and effects” (Greenwood, Suddaby, & Hinings, 2002:60). Theorization leads to a common orientation and an underlying interpretive scheme that offers ideological coherence manifested in a configuration of widely accepted forms and structures commonly referred to as ‘archetypes’ (cf. Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood & Hinings, 1993; Ranson, Hinings, & Greenwood, 1980). These archetypes are recognizable and typical patterns of behavior with certain probable outcomes.

This precipitating situation wherein logics are highly theorized results in certain field-level dynamics that we see across a majority of studies such as the move from one dominant logic to another, the merger of logics or the coexistence of several logics. Mature and emergent fields nevertheless differ in the ways that they adapt to institutional complexity. Organizations in mature fields have little discretion in adapting their responses to institutional complexity due to their embeddedness in existing archetypes related to the dominant logic (e.g. Cooper et al., 1996; D'Aunno et al., 2000; Djelic & Ainamo, 1999; Goodrick & Reay, 2011; Reay & Hinings, 2005). In contrast, organizations in emergent fields have more flexibility in the formation of their responses given the lack of specification of institutional prescriptions (e.g. Battilana & Dorado, 2010). Despite
these differences, both mature and emergent fields tend to draw upon theorized logics in the formation of their responses. It is noteworthy, however, that no attention has been paid to situations wherein institutional complexity is especially salient; that is, when institutional complexity is triggered by a logic that is not yet theorized. This is all the more surprising given that previous research has shown that the theorization process is key to the diffusion of new logics (Greenwood et al., 2002).

This paper aims to address the aforementioned neglect by exploring the field-level dynamics arising from institutional complexity in mature fields with stable institutional arrangements manifested in widely accepted ‘archetypes’ (Cooper et al., 1996; Greenwood & Hinings, 1996) that face substantial transformation with the emergence of an untheorized logic that appears incompatible with the field’s existing archetypes, or what we refer to as ‘transition fields’. It does so by means of an exploratory case study of the development of Responsible Investment (RI) within the Asset Management (AM) industry in Europe. The asset management industry – worth EUR 12.4 trillion of assets under management (AUM) in Europe or equivalent to 97% of the region’s GDP (EFAMA, 2011) – is one of the most important industries in today’s financially-driven economy. It is a relatively stable and mature industry strongly embedded in existing archetypes adhering to a financial logic which is experiencing gradual yet substantial institutional changes with the increasing penetration of a sustainability logic due to a myriad of events ranging from environmental crises and corporate governance scandals to civil society movements. The sustainability logic emerged within the field as undefined and appeared incompatible with the field’s existing archetypes related to the dominant financial logic. RI – defined in this paper as a generic term covering any type of investment process that combines investors’ financial objectives with their concerns about Environmental, Social, and Governance (ESG) issues – emerged as a new practice in the midst of this complexity. RI now represents more than 46% of the overall AUM in Europe (Eurosif, 2010) and poses the possibility of mainstream adoption and institutionalization,
shedding light on the reality and plausibility of the integration of sustainability in the capital markets at the wake of the current financial crisis.

Due to the complex and exploratory nature of our research question, we use an abductive methodology (Dewey, 1925; Lorino, Tricard, & Clot, 2011) based on semi-structured interviews with key RI decision makers across the most important institutional investors in Europe, documentary evidence, and participative observation in RI events from 2010 to 2013. We analyze the ways in which institutional complexity is experienced in the asset management industry as organizations begin to incorporate sustainability issues within their traditional investment practices and we attempt to determine the mechanisms underlying this experience.

As the organizations began adopting RI, several interesting findings emerged. We find that the structural attributes of the field affect the experience of institutional complexity. Due to the transitional nature of the field, organizations made sense of complexity by undergoing a process of logic assimilation, which has two core mechanisms: logic theorization, or the usage of established (incumbent) archetypes to frame and translate the undefined logic in order to make it compatible with the prevailing archetype and archetype elaboration: the redefinition of incumbent archetypes based on the characteristics of the incoming undefined logic. Due to the saliency of the complexity and the lack of models and tools available to the organizations to make sense of the situation, we find that the logic assimilation process was facilitated by an external factor: the existence of the Principles for Responsible Investment (PRI), which acted as an enabling institution in this process.

We highlight several contributions of the paper. First, the paper answers recent calls for more studies exploring the underlying processes of institutional change by advancing a largely ‘fuzzy’ aspect, namely the role of field-level structure in the experience of institutional complexity and by focusing on a transition field: a situation in which institutional complexity is especially salient. By doing so, we show that certain logic dynamics are likely to occur given precipitating situations related to field structure. We also shed light on how complexity is experienced in the absence of models and tools through enabling institutions, which facilitate the process of logic
assimilation. Finally, our study contributes to a better understanding of how Responsible Investment practices can become mainstream within the financial sector, driving profound institutional change.

REFERENCES


