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Measuring the unmeasured: An institutional entrepreneur strategy in an emerging industry

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ABSTRACT The organizational literature on emerging industries has emphasized the need for institutional entrepreneurs – actors who give the new activity legitimacy and determine its patterns of behaviour. However, little empirical research has been carried out on the strategies that institutional entrepreneurs employ in order to achieve legitimacy for their activity. In this article, we suggest that an institutional entrepreneur can use the development of measurement tools as a strategy to develop its own legitimacy and power. By looking at a French entrepreneurial company's development of tools to measure corporate social performance, we analyse how measurement tools influence the legitimacy of an industry and the systemic power within it. Finally, we discuss the implications of our findings for research into measurement tools in the areas of management or business and society.

KEYWORDS corporate social performance ▪ institutional entrepreneur ▪ measurement tools ▪ socially responsible investment ▪ social rating

Putting together socially responsible investment funds is a bewildering task. It relies on assessing corporate social performance (CSP), even though, from a theoretical point of view, there is no consensus on even the definition of this. At best, CSP is understood to be a complex concept integrating several dimensions that cannot be reduced to a unique ratio (Agle & Kelley, 2001; Mitnick, 2000; Rowley & Berman, 2000). No clear correlation has been shown between CSP and financial performance, despite much research (Griffin & Mahon, 1997; Margolis & Walsh, 2003; Roman et al., 1999).

Socially responsible investment, or SRI, has been defined as 'a set of approaches which include social or ethical goals or constraints as well as more conventional criteria in decisions over whether to acquire, hold or dispose of a particular investment' (Cowton, 1999: 60).[1] For example, religious institutional investors may take the decision to exclude companies that disrespect international human rights from their investment, whereas a conscious ecological investor may be prone to support companies presenting an environmental friendly policy. Such a phenomenon would seem, therefore, to hold little interest for the financial world, unless demand for it were stronger. But in many countries demand has remained weak and the quantity of assets managed limited. In France, SRI funds accounted for only 0.24 percent of the total capitalization of mutual funds at the end of 2002 (*).[2] Yet SRI funds are well established in most western financial centres. This raises two questions: (i) How did the market for socially responsible investment develop; and (ii) How did it achieve legitimacy in the financial field?

We believe that understanding the development of measurements of social responsibility is central to understanding the development of SRI. Furthermore, empirical studies in business and society often use the outputs of social rating agencies to measure CSP (e.g. Berman et al., 1999 or Waddock & Graves, 1997, used Kinder, Lyndenberg and Domini (KLD) ratings) in spite of a mismatch between such measures and the theoretical construct of CSP (Agle & Kelley, 2001; Mitnick, 2000; Wood & Jones, 1995). Social-rating agencies are having a growing influence on research on CSP, following the Pirandellian 'data in search for a theory' logic highlighted by Ullman (1985).[3] Studying the social-rating agency legitimacy-building process provides a way to move from taken-for-granted measures of CSP to an understanding of how assessments are constructed by entrepreneurial actors.

We contend that rating agencies developing ways to measure CSP are institutional entrepreneurs – actors who create norms, values and scripts, and by whose actions the new institution becomes accepted (DiMaggio, 1988; Zimmerman & Zeitz, 2002). We suggest that the setting of such a measure legitimates the emerging activity. In addition, as the rating agency remains in control of the rates setting, it secures a central situation in the emerging industry, ensuring their own legitimacy and power as a consequence.

To examine these issues we combine approaches drawn from recent studies in the areas of new-venture legitimacy (Aldrich & Fiol, 1994; Rao, 1998; Zimmerman & Zeitz, 2002), the sociology of science (Callon, 1998; Callon & Muniesa, 2002) and the historical perspective towards quantification and measurement (Porter, 1994, 1995), as well as studies on systemic power (Foucault, 1979; Townley, 1993). Using a case study focused on the launching of the young and still-developing SRI industry in France, we analyse the effects that the establishment of a way to measure CSP has on the development of the SRI industry.

The article is divided into five sections. In the first section we establish the theoretical elements on which our research is based. The next section explores the emerging SRI industry in the French context. The third section introduces our methodology and data. The fourth section presents an empirical study of the introduction of measurement in this industry, and of its effects. In the last section we consider the theoretical and practical implications of this study.

Theoretical background

We draw our theoretical basis from studies on emerging industries and the establishment of measurements; studies that highlight the role played by measurement in legitimacy building and power building.

Institutional entrepreneurship in an emerging industry

Emerging industries present an inherent 'liability of newness' (Stinchcombe, 1965). Entrants in the new sector have to overcome their lack of legitimacy: in the absence of solid records they can find it difficult to form alliances and to access resources, as stakeholders do not know whether or not they are trustworthy (Aldrich & Fiol, 1994). This lack of legitimacy is compounded by the lack of clearly defined templates, as potential entrants face the added costs of researching information on the activity and how it can be performed. If the industry is to succeed, somebody has to act to legitimize the new activity and to establish patterns of behaviour. These people and organizations act as 'institutional entrepreneurs' – actors who create technical and cognitive norms, models, scripts and patterns of behaviour consistent with their identity and interests, and establish them as standard and legitimate to others (DiMaggio, 1988; Zimmerman & Zeitz, 2002). By doing so, they reduce the uncertainty linked to the new activity.

Institutional entrepreneurs are by no means necessarily altruistic. They can enforce their legitimacy and even, if they are able to retain sole control of the institution, enjoy a form of 'systemic power' within the industry – i.e.

power that functions through routines and practices, seemingly disinterested, that tend to work in an ongoing prosaic fashion (Lawrence et al., 2001). Systemic forms of power often do not seem a priori to be forms of power. They benefit particular groups or actors without being necessarily associated with them on an ongoing basis.

The importance of measurement tools in an emerging industry

Industries, like markets, do not materialize as coordinated entities. The fledgling industry requires appropriate coordination tools for it to mature (Callon, 1998). The items exchanged must be calculable, however 'calculativeness' is not possible without specific tools, through which users can identify the possible states of reality the market offers, rank those states, and recognize and describe the actions through which they are produced (Callon, 1998; Callon & Muniesa, 2002).

Yet, according to Porter (1994, 1995) quantification involves the reduction of an object to subsets of elements that can be standardized and quantified. This results in abandoning an object's dimensions that cannot pass the test of quantification. Measure means a loss of information and it reshapes the notion to some degree. For example, the concept of temperature in relation to a patient's general health was initially very loosely defined, but since the thermometer has been able to measure it, its definition has become restricted to what was being measured (Porter, 1994: 44, 1995). To measure temperature implied ignoring a rich variety of connotations that could not be subjected to one-dimensional measurement.

Measurement shows something by bringing it into existence, and at the same time making something else disappear. Measurement then acts as a screen and is never neutral. Porter (1995) shows that once actors have defined and accepted standard quantitative measures, they can share common meanings. Measurement tools allow actors to define rules for the new institutional form and to become less reliant on interpersonal relations (Callon, 1998). They enable standardization and generalization, favouring the entry of new actors and the further development of the emergent industry.

Measurement as a mode of legitimation

Organizations depend on resources that are controlled by stakeholders. Organizations starting a new activity must attain a certain legitimacy threshold vis-à-vis these stakeholders if they are to survive and develop (Rao, 1998; Zimmerman & Zeitz, 2002). But in an evolving industry, stakeholders assess the legitimacy of innovators' actions on how closely they conform to their own values and established practices. According to Haveman and Rao (1997), 'the essence of institutional entrepreneurship is to align skillfully an organizational form and the specific institution it embodies with the master rules of society (Swidler, 1986)' (p. 1614). Authors suggest that compliance with the established cognitive frameworks will favour the legitimation of a new activity (Kondra & Hinings, 1998) and its diffusion (Strang & Meyer, 1993). Actors who introduce innovations that may disrupt established institutional frames must emphasize how those innovations comply with the established institutional frames. Empirically, Hargadon and Douglas (2001) show how Thomas Edison's innovative electric lighting system was widely accepted as its design was used to mediate between the institutionalized design and the technical innovation. By doing so, the design reduced the uncertainty linked to the new activity. Furthermore, it ensured that the main stakeholders would consider the new activity legitimate.

Measurement as a way to establish systemic power

Measurement tools and calculation systems and procedures are instrumental in disciplining actors' behaviours and decisions, consistent with Foucault's contention that disciplinary systems define and label individuals in terms of normative classifications (Foucault, 1994). Measurement tools restructure and redefine what is to be measured in terms of what *can* be measured and classified (Callon, 1998; Kalthoff, 2002). Kalthoff (2002) gives the example of the computer-assisted data used by risk analysts. He emphasizes (2002) that 'the computer does not only provide data for the analysts to observe or calculate economic developments or an enterprise but it also provides the formats in which these activities can be performed' (pp. 31–2). He suggests that as the computer uses pre-programmed financial models to perform the calculations, the analysts do not work on a neutral basis but on a standardized one that embodies financial knowledge.

The reshaped conception will be diffused through the industry in which the quantified measure has been introduced. Disciplinary systems also influence actors' behaviour, causing them to become more predictable. The measurement tool defines a system of possibilities which actors will tend to consider objective, and through which they will analyse situations (Foucault, 1994; Kalthoff, 2002). Disciplinary systems are especially powerful in emerging industries in which actors lack the patterns of behaviour and calculation tools that are necessary for the industry to develop (Callon, 1998).

Although measurement tools establish standard definitions, they are not neutral. According to Foucault (1979), the key feature of modernity is 'the steep rise in the use of these mechanisms of normalization and the wide-ranging powers which, through the proliferation of new disciplines, they bring with them' (p. 306). Foucault emphasizes that, although they may seem to be objective, disciplinary systems which 'work through the routine, ongoing practices of organizations' (Lawrence et al., 2001: 629), give certain actors systemic power. A number of authors have recently pointed out that institutions represent a form of systemic power in themselves. Although institutional entrepreneurs have only episodic power before the institutionalization of their project, once it is institutionalized they enjoy systemic power. It is suggested that, once established, institutions provide select actors with this form of power, granting them a dominant position in the industry (Clegg, 1989; Lawrence et al., 2001).

Introducing a measurement system that eventually acts as a disciplinary system can give the institutional entrepreneur considerable systemic power. Such a measurement system renders actors predictable – and thus governable – and the entrepreneur who introduces the system may be in the position of controlling a tool that is essential for the functioning of the whole industry. Without this tool, actors would be left without cognitive categories or patterns of behaviour; like doctors trying to base a diagnosis on a temperature taken using a broken thermometer. Such systemic power will last only as long as the institutional entrepreneur is the only one in control of the measurement.

This theoretical background allows us to shape our research questions: How can a measurement system ensure the legitimacy of an institutional entrepreneur? How can it ensure the legitimacy of an emerging industry? How can this measurement system assure the institutional entrepreneur systemic power? (Figure 1).

These questions are addressed using a case study on the development of the French SRI industry.

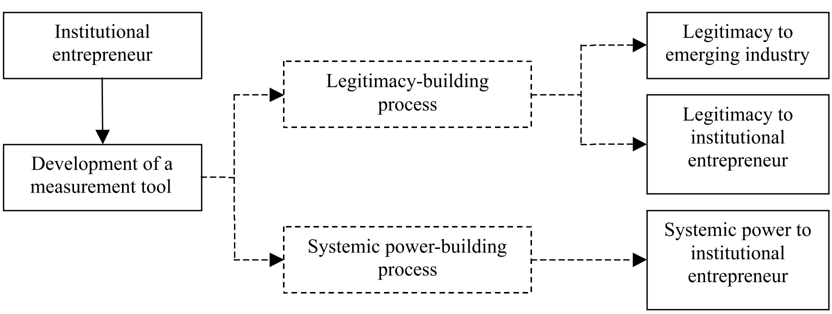

Figure 1 A theoretical framework to investigate the role of measurement tools in an emerging industry

The emerging SRI industry in France

As SRI is relatively new in France, dating from the late 1990s, we had an opportunity to study the entrepreneurial process in its entirity, as well as all the main actors involved. These actors included SRI fund managers, organizations providing extra-financial information, and the major financial companies.

Socially responsible investment in France

SRI has been defined as 'a set of approaches which include social or ethical goals or constraints as well as more conventional criteria in decisions over whether to acquire, hold or dispose of a particular investment' (Cowton, 1999: 60). Although the SRI movement has a long history in the US, it did not really take off in France until the late 1990s (Domini, 1992; Férone et al., 2002; Muet et al., 2002). The last few years have seen the number of socially responsible funds available in France increase rapidly: from 7 in 1997 to 42 in December 2001 (**), with total SRI assets in France increasing from 200 million euros to approximately 1000 million euros (Muet et al., 2002). Over this period, the French asset management market as a whole was stagnant. Responsible investment funds represented 0.12 percent of French mutual funds capitalization by the end of 2001, and 0.24 percent (or 2400 million euros) by the end of 2002 (*).[4] Although the total amount remains modest, all of France's major retail networks (Crédit Agricole, Société Générale, BNP Paribas) now offer this kind of fund.

Extra-financial information

The newly created socially responsible funds required extra-financial information on the companies they were considering investing in. Some fund managers began to collect information and develop their own ratings. Nevertheless, this approach demands huge research costs and renders the activity uncertain. Many fund managers began, therefore, to look for organizations that would be able to provide this kind of service. Although such a service was available at some foreign organizations like SAM or INNOVEST, these organizations had little information on French companies and could evaluate only the largest ones. In France, few organizations were able to provide analyses of these data.

The Centre Français d'Information sur les Entreprises (CFIE) was founded in 1996 to facilitate social and environmental progress. It produces detailed monographs on companies. Several fund managers emphasized the quality of these monographs during their interviews. However, CFIE's market share remains rather small. In 2001, only one fund was a regular CFIE client. The Observatoire de l'Ethique (ODE) is an association essentially oriented towards consumer information which also provides social information for ethical investment.

The founding in 1997 of an 'environmental and social rating agency' – ARESE – offered fund managers a better structuring of the information and thus stimulated the development of new funds (Muet et al., 2002). ARESE helped to develop the activity of social rating and the SRI industry itself. As shown in Table 1, 85 percent of France's ethical or SRI funds were using ARESE by the end of 2001. We focus in this study on the take off of the SRI – i.e. the period 1997–2001.

In 2002, ARESE was dissolved, as a result of a disagreement between managers and major shareholders over company strategy. By the end of 2002, three 'rating agencies' essentially shared the market in France: VIGEO (formerly ARESE), INNOVEST France (a new entrant) and CORERATINGS (founded in 2002 by ARESE's former CEO, Geneviève Ferone), with CFIE and ODE playing a more marginal role.

Major stakeholders

Very often, organizations within emerging industries are dependent upon stakeholders who do not belong to the same industry (Aldrich & Fiol, 1994). It is crucial for these organizations to achieve legitimacy in the eyes of stakeholders if industry members are to survive and grow. In the case of SRI, its

Table 1 Development of SRI in France and ARESE's market share

	1997	*1998*	*1999*	*2000*	*2001*	*2002*
(1) Number of funds using ARESE rating	0	4	9	22	34	NS
(2) Number of ethical funds in France	7	12	17	33	42	NS
(3) = (1) / (2)	NS	33%	53%	67%	85%	NS
(4) Social rating agencies	ARESE	ARESE	ARESE	ARESE	ARESE	VIGEO (ARESE) INNOVEST CORERATINGS
(5) Other organizations	CFIE ODE	CFIE ODE	CFIE ODE	CFIE ODE	CFIE ODE	CFIE ODE

Sources: ARESE website; Muet et al. (2002); SRI-in-progress website; and interviews.

industrial actors depend on being accepted by the major actors in the financial community. In 1996, as we have noted, responsible investment funds represented only an infinitesimally small proportion of the assets invested in France. SRI sponsors needed high street banks to decide to develop these funds, but no studies had unambiguously established that socially responsible firms ensured a higher return on equity than other firms (Margolis & Walsh, 2001, 2003; Roman et al., 1999); so they needed to develop other arguments to convince executives of their legitimacy. SRI seems today to have achieved such legitimacy in France, and all the major retail networks propose and promote socially responsible funds.[5]

SRI funds and extra-financial information providers gradually became institutionalized in the French context. They are now activities considered as established by the financial world. We try to show the role played by the measure in the development of this institutionalization process.

Methods and data

The organizational literature emphasizes that emerging activities are complex environments in which many influences interact (Zimmerman & Zeitz, 2002). Tsoukas and Hatch (2001) argue that in such complex situations researchers should privilege qualitative and narrative approaches; approaches that attempt to render actors' interpretations. According to Yin (1989), the case-study methodology is well suited to exploratory research and to generating explanations, and especially suitable when 'how' questions are being asked, i.e. when a procedural approach is required. This led us to conduct a qualitative case study.

We gathered our data from three types of sources. We began by carrying out exhaustive research into the history of SRI development in France. We followed this up with semi-structured interviews (ranging in length from one to four hours) with all of ARESE's executives who had been present during the period under investigation (1996–2001) and most of the socially responsible fund managers in France.[6] We conducted 49 interviews for this study: 8 at ARESE, 3 at the Centre Français d'Information sur les Entreprises (CFIE; 'French Information Centre on Corporations'), and 38 with fund managers from 27 socially responsible funds. Overall, we carried out 51 hours and 15 minutes of interviews. The interviews with fund managers and ARESE executives occurred both before and after the company changed its name to VIGEO. The decision to change the name was made by shareholders who wanted to sustain ARESE's success. They also installed a well-known social figure as CEO: Nicole Notat, a former leader of the French worker's union, Confédération Française Démocratique du Travail (CFDT). This led to the departure of ARESE's founding CEO and most of the team.

A recent study found that interviewees are able to provide finer grained and more genuine information once they are outside the 'iron cage' of the organization (Boiral, 2003). Our experience supports this view. These shifts within ARESE were a methodological opportunity for us, as executives were much more willing to speak to us candidly after having left the company.

We cross-verified our data with newspaper reports and internal documents from the organizations concerned. All the interviews were coded using N*VIVO qualitative analysis software.

The development of measurement tools in the SRI industry

The definition and measurement of CSP are far from evident (Margolis & Walsh, 2001, 2003; Mitnick, 2000). The academic literature provides very broad consensual definitions enumerating the components of the concept, such as Wood's (1991) definition of CSP as 'a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships' (p. 693). There is, however, a proliferation of more specific definitions (at least 14, according to Husted, 2000). The semantic ambiguity induced by the use of concepts that differ only slightly, such as 'corporate social responsibility', 'corporate social responsiveness' or 'corporate citizenship', results in theoretical and empirical confusion, and, to date, CSP seems to have defied clear definition as a theoretical construct (Clarkson, 1995). Rowley and Berman (2000: 398) submit that 'CSP as a theoretical and operational construct is fatally flawed'.

Despite these theoretical debates, ARESE constructed and imposed a CSP measurement system for the French market that has become accepted by the market. In establishing this measure, ARESE resolved the Gordian knot of CSP definition. It did not solve any theoretical problem, but provided professionals with the stable calculable tool they needed for the industry to develop (Callon, 1998; Callon & Muniesa, 2002), allowing them to move forward.

The development of a measurement tool to assess CSP was key to ARESE's strategy. The attitudes and positioning of French extra-financial information providers towards measurement vary greatly. For more militant organizations, such as the CFIE, quantification is seen as a kind of compliance with the 'coverage' logic of companies, incompatible with the CFIE's positioning, as explained by its director: 'Our goal is to promote social and ecological values within corporations'. On the opposite side of the fence, ARESE's CEO Geneviève Férone considers that 'what's not measured is not manageable'.

ARESE evaluated corporate social performance using a three-phase methodology: data gathering (collection of primary and secondary data on the social behaviour and practices of companies), scoring (quantification of these raw data by the analysts through a comparison of companies inside each industrial sector) and ranking (classification of companies in each industrial sector based on the previous scores). In order to be quantified (second stage of the process), the collected data are organized using a matrix crossing two sets of categories: (i) five criteria corresponding to the interests of the major stakeholders (human resources, the environment, customer/supplier relations, corporate governance and community involvement); and (ii) three dimensions inspired by total quality management frameworks which are used to describe the stakeholder management process (leadership, deployment and results, or 'LDR'). The appendix provides details about the topics included in each of the stakeholder's dimensions. For each stakeholder, the three dimensions (LDR) are evaluated on a 100-point scale in order to obtain a global score. Firms are then ranked based on those scores (the third stage of the process). At the end of the process, ARESE sets five ratings for each company, corresponding to an appreciation of its behaviour towards its five stakeholders. These final ratings range on a five-point scale from '– –' (for the 'unconcerned companies') to '+ +' (for the 'pioneers'). This approach is called 'positive screening' (or the 'best-in-class' approach) as opposed to 'negative screening'. The latter refers to the rejection of firms with a defined level of involvement (generally defined as a percentage of their activity or revenue) in an activity seen as contradictory to a certain set of values (for instance, pornography or the production of tobacco or alcohol products). This quantification of CSP measurement has favoured the legitimatization towards financial actors.

Providing legitimacy through measurement

Our empirical data suggest that the quantified measurement system of CSP provided by ARESE contributed to establishing the legitimacy of the emerging SRI industry and of ARESE within this new industry.

Measurement as a strategy to legitimize the emerging industry

The major stakeholder in the SRI industry is the broader financial community, which decides whether this activity should be developed or abandoned. Lacking any strong financial evidence of higher returns, legitimacy is crucial. It obliges the institutional entrepreneur to align with the major stakeholders' values. Research has shown the particular importance of measuring in the finance sector (Abolafia, 1996; Kalthoff, 2002). This is especially true in the French financial industry, in which quantification is highly institutionalized and valued. Godechot (2001) shows that in trading rooms, people with recognized skills in quantitative techniques are accorded the highest status. Actors in the financial field are deeply embedded in a cognitive frame in which quantitative measurement tools matter a lot, notably because they are seen as providing objectivity.

ARESE designed a rating system based on quantified measurements that would conform to the financial community's expectations, allowing socially responsible fund managers to legitimize themselves within this community. Potential clients told them that banks would refuse a qualitative, non-measured appreciation. ARESE emphasized that its rating methodology was not an exclusion system, based on negative screening, and the company refused to proffer an opinion on what organizations should or should not do, providing the ratings alone. Férone explained how, before the arrival of the ARESE ratings, there were a few groups in France that could provide information on issues such as a company's involvement in weapons manufacturing or the alcohol or tobacco industries. Yet none of these groups attempted to develop a tool designed for financial investors, primarily because they were opposed to financial speculation. But as Férone puts it, there was 'no room for preaching when working with the financial world'.

As an ARESE founding analyst emphasized:

> Geneviève thought that you couldn't run a business in France without conforming to the corporate way of doing things. We wanted to sell the model not only to the religious community, but also to institutional owners, in order to obtain a greater share of the market. That's why our business model excluded negative screening, and was oriented only towards the financial and corporate market.

Another ARESE's analyst stated:

> Look at the others . . . these people were here before us, defending their convictions. They always fought in this way, and it never crossed their minds that one day the product would become mainstream.

Quantification allowed ARESE to be distinguished from other organizations providing extra-financial informations and to develop the market beyond a narrow circle of specialists. An ARESE analyst indicates:

> Geneviève realized very quickly that a few investors were profoundly convinced by ethics, but that they would always represent a very small market. We wanted to do things in a big way. The big market.

Fund managers reported that it was very difficult to create SRI funds before the arrival of ARESE in the early 1990s, because of a lack of reliable extra-financial information sources. The executives we interviewed considered extra-financial rating to be a profession in its own right, requiring specific competencies and means. According to them, it was not worth appointing full-time analysts to do this job, as the potential of those funds remained unclear. Data provided by an external organization were then preferred to their own social rating. They also feared that starting an SRI activity without reliable analysis might jeopardize their business-like reputation. The ARESE executives who originally developed the methodology all acknowledged that they had considered these demands.

In marketing their product to the financial community, ARESE stressed that their methodology was quantitative, reliable and complex. A founding ARESE analyst indicates:

> When investors came to see us looking for information about our ratings, we gave them a presentation of our methodology – we called it the 'black box' – it was a computerized presentation. We'd run it at least once for all of our customers . . . Sometimes we'd show it to prospective clients and they'd sign up straight away. . . . That's proof they were convinced by what they saw.

The company was willing to emphasize how much its methodology was serious and close to the traditional financial methodology. A founding ARESE analyst emphasized this strategy:

> We'd use statistical and exploratory analysis . . . to justify our seriousness, to say: 'Look, it's simply through analysis, we have a system of analysis – a complex black calculating box. It gives us a result that's

> relevant, and we can make sense of the data precisely because we can make correlations, interpret trends'.

Socially responsible fund managers were later to use these characteristics of ARESE's rating methodology to justify their own credibility and reliability to the financial community. For example, the ABF asset management information sheet states:

> We have a serious methodology, based on a quantitative process that integrates the social and environmental criteria to build an ethical portfolio.

The BNP's SRI fund information sheet puts forward that:

> The screening of companies is rigorous and systematic. We develop a fundamental analysis of financial and non-financial criteria, using a quantitative approach.

Measurement as a strategy to legitimize ARESE

Recent studies emphasize the professional pressures of the financial field and the ways in which these pressures shape actors' cognition (Lounsbury, 2002; Rao & Sivakumar, 1999). In this activity, professional pressures enforce the use of quantitative measurement tools as 'the way things should be done'.

All the SRI fund managers we interviewed told us that they considered their work to be a financial job in which they had to comply with the standards and methods of the financial world. ARESE adapted its rating methodology to the professional standards of the financial community in at least two ways: first, companies belonging to the major financial indexes were the first to be rated; and second, the process was progressively designed to allow fund managers directly to calculate a company's social performance.

ARESE issued its first ratings in February 1998, assessing all 40 blue-chip French companies that comprise the CAC 40 index, the main real-time indicator of the French stock market. By the end of 1998, its ratings included the companies of the SBF 120 – the index of France's top 120 stocks in terms of liquidity and market capitalization. In 1999, major European companies were rated, and by 2000 ARESE's ratings had expanded to include all of the companies of the Dow Jones EUROSTOXX 50, an index of 50 of the largest companies in Europe (see Table 2).

Table 2 Stock values rated by ARESE

	February 1998	*End of 1998*	*1999*	*2000*	*2001*	*2002*
Values rated by ARESE	40	120	120 + 80	250–300	250–300	350–400
Rated stock index	CAC 40	SBF 120	SBF 120 + European values	SBF 120 + EUROSTOXX	SBF 120 + EUROSTOXX	SBF 120 + EUROSTOXX + small caps

Source: Interviews.

Contrary to other extra-financial information providers whose assessments depended on gaining access to more specialized information, by following the major financial indexes ARESE could rate companies involved in a universe well identified by the financial community, as fund managers would have easy access to financial information when making investment decisions.

Interviews with funds managers showed that this aim was achieved. A fund manager justified its choice by similarity in methodology.

Q: Why did you choose to work with ARESE?
A: We looked at the options available and ARESE seemed the most similar to us, and it gave us access to a world we were interested in.
Q: What do you mean by 'the most similar to you'?
A: Their methodology was familiar.

Another one emphasized ARESE's approach related to industrial sectors.

Q: Why did you choose ARESE as an extra-financial data provider?
A: Because of the type of investments they evaluate, and because we wanted to shape our investment process to our needs. They were the most accessible and were around when we created our funds.
Q: And what did you like about their system?
A: Their approach, the way they worked in terms of industrial sectors. And the sectors they covered.

At first, in 1997–8, ARESE gave fund managers short, two- or three-page assessments of each firm they had evaluated, including ratings on the five criteria of human resources, the environment, customer/supplier relations, corporate governance and community involvement. But ARESE's analysts soon realized that their customers did not need all this information. They simplified the presentation to an Excel file presenting their ratings in terms of these five criteria. An ARESE's executive explained their reasoning as follows:

> Fund managers are really only interested in having an Excel file. Then they can integrate the grades into their management process. Even though they all do quantitative fund management . . . their understanding of SRI varies a lot. Some are passionate about it – they're the ones who came to us. But other just want a button. They just want to push a button.
>
> (ARESE founding analyst)

ARESE's approach allowed a firm's social behaviour to be 'calculated' (Callon, 1998). Its rating system enabled fund managers to assess the five corporate social-performance dimensions using traditional quantitative techniques and tools, and to apply mainstream quantitative portfolio management techniques to construct 'socially responsible' funds.

ARESE's method was designed to fit in with both the financial community's expectations and fund managers' professional practices. As an ARESE founding member put it: 'Socially responsible fund managers could then go to top executives and say "Now we have ratings".'

Power-play through measurement

ARESE achieved a systemic power by creating and controlling the measurement tool – by shaping actors' operational definitions of CSP. Through this measurement system, ARESE ultimately influenced the behaviour and decision-making processes of company managers and executives.

According to the Foucaldian logic of classification, measurement tools contribute to framing our perceptions. The fund managers we interviewed all recognized the role played by ARESE's concepts and ideas in their own definition of a socially responsible firm, and they viewed this conceptual work as an example of ARESE's excellence. According to one fund manager: 'ARESE did a tremendous job of defining Corporate Social Responsibility'.

The measure has, therefore, a framing effect on the way the actors behave, reflecting its influence on actors' cognitions. In the case of SRI, fund managers face such an overwhelming amount of extra-financial corporate data that they have to apply some sort of analysis to it so that they can make appropriate decisions. Developing their own specific analyses would be too time-consuming, especially as financial markets require rapid answers. ARESE provided simple reports of quantified measures through which social performances could be compared. These quantified measures satisfied the actors' preference for standardization over accuracy (Porter, 1994). In this way, ARESE's ratings made ethical investment decision-making easier. According to one of the authors of ARESE's methodology, this had been their goal from the start:

> We designed a tool that fits in with the way analysts work. We told them: 'Look, you have a financial screening. After the financial screening, based on company results and cash flows – quantified measures – we provide you with another quantified measure, which allows you to perform new calculations. It fits in with the working practices of financial analysts. It's consistent'. Then you have figures, a rating, grades. It allows you to put together any kind of combination you want, to adapt the product to financial analysis or to the way fund managers work.

Our interviews revealed that all the SRI fund managers applied closed decision-making processes. They would either first screen companies using the ARESE rating and then select their investments from the remaining values depending on financial performance, or they would carry out a financial screening first and then operate a selection on the basis of the ARESE ratings. In both cases, the ARESE rating is crucial. The result was a notable isomorphism among the funds structures and performances. In the words of one of the few fund managers using an alternative provider:

> When 90 percent of the funds are using ARESE's ratings, you find the same portfolio all the time and then the same performance for all the funds. They used ARESE and made choices from among high-return firms. But after a financial screening, you'd be left with the same set of high-return firms.

Meanwhile, ARESE achieved important systemic power among the fund managers. They relied on ARESE to provide them with the extra-financial data they needed to do their job. With an 85 percent market share, ARESE achieved a quasi-monopoly position and ensured that its measure was institutionalized in the emerging industry. By providing this information, ARESE both influenced the fund managers' cognitive frameworks and their decision-making process.

Discussion and conclusion

Our research questions related to how the setting of a measurement could ensure the legitimacy of emerging industries and institutional entrepreneurs while providing entrepreneurs with systemic power. Our data analysis highlights three mediating effects of setting this measurement (Figure 2): measurement as an adaptation tool to main stakeholders' cognitive framework; measurement as a tool for 'alignment with fund managers' professional standards'; and measurement as a tool to structure fund managers' decision-making processes. The SRI industry and institutional entrepreneur are both concerned with these effects.

Within the French financial community, quantification is highly institutionalized and valued. The measure helped to adapt the notion of CSP to the financial community's cognitive framework by making SRI understandable and scalable. This allowed socially responsible fund managers to meet the expectations of the financial community. This adaptation also favoured ARESE's legitimacy, as it aligned its activity – CSP measurement – with the standards of the French financial community.

CSP measurement was in accordance with managers' professional standards. ARESE's measure was designed to match fund managers' practices. Its rating system enabled them to asses the five CSP dimensions using quantitative tools. This favoured the development of ARESE legitimacy towards SRI fund managers.

Finally, ARESE's measurement of CSP became a norm largely diffused among SRI fund managers. By 2001, its market share was about 85 percent. Therefore, the ARESE measure influenced the behaviour and decision-making processes of most SRI fund managers. In other words, the quantitative measurement system influences actors' cognition. The more its measurement system was diffused, the more ARESE shaped fund managers' decision-making processes. This ensured that ARESE had a prominent position as an extra-financial information provider for SRI fund managers, and entrusted it with systemic power in the emerging industry. The ARESE measure was then necessary for SRI fund managers in their decision-making process.

This case study supports the view that setting a measure can be a powerful tool for an institutional entrepreneur. However, the study has certain limitations. First, measurement was not the only mechanism by which

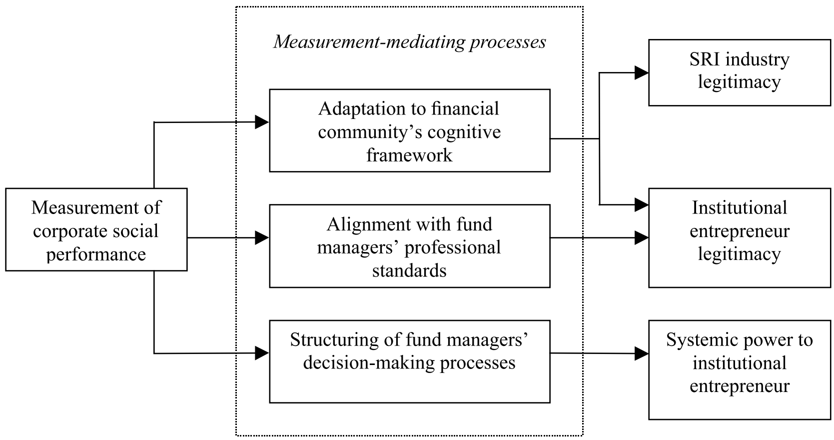

Figure 2 A model of measurement strategy in the SRI field

ARESE and the SRI industry succeeded. Relational networks were also very important, as was support from renowned banks. But although these aspects have not been analysed here, interviewees agreed that measurement explained an important part of ARESE's success. Second, the systemic power that ARESE, now known as VIGEO, secured remains narrow. It is based only on the capacity of VIGEO to stay ahead, maintaining its first-mover advantage. As we indicated, since 2002, several companies have provided the same types of services and have proposed quantified measures, threatening VIGEO's dominant position. Third, measurement as a winning institutional strategy is highly contextual. In the US, organizations using negative screening have also succeeded. One explanation is that, in the US, several social movements were demanding such products, whereas in France the SRI movement had to convince financial executives, because of a lack of demand. Demands differ from one context to another, and institutional entrepreneurs must adapt their actions to their environment.

We believe that this study opens up avenues for further research in studies on institutional theory and on business and society. We suggest that institutional analysts may profit from analysing the development and diffusion of measurement tools. We believe that measurement plays a central role in the establishment of a new industry and constitutes an important cognitive framework for actors within a field. Furthermore, incorporating the setting of measurements into the strategies developed by institutional entrepreneurs may provide new and important insights. We suggest that setting a measure, and having the ability to control it, is an important way to ensure a sustainable advantage. Our case study is consistent with the opinion of authors such as Callon (1998) that measurement is such a central institution that coordination among actors is almost impossible without it. Yet this strategy, like any institutional entrepreneurial strategy, depends on its context and on stakeholders' demands. Further research is needed into the importance of the cultural context in SRI development, and on institutional entrepreneurial strategies.

As we recognize the socio-political construction of corporate social-performance assessment (Mitnick, 2000; Rowley & Berman, 2000), it might be interesting to analyse the construction of social ratings in other countries. The effects these rating constructions have on rated companies also seems to be an important topic to investigate.

This case study also leads us to suggest that more attention should be paid to the relationship between power and legitimacy. In the case of ARESE, we suggest that adopting the financial actors' cognitive frames from the start was a way of acknowledging their power. By doing so, ARESE was able to secure their support and establish its legitimacy. Other actors, such as the CFIE or ODE, challenged the financial actors' logic – entering into a power struggle and ultimately being defeated. Yet relations between legitimacy and power are more complex than this. By acknowledging the power of financial actors and seeking legitimacy through them, ARESE secured a central place in the emerging industry. This centrality gave it power. We have shown that ARESE had control over the cognitive frames and decision-making processes of the managers of socially responsible funds. Further research in the field could possibly investigate the way in which ARESE was able to use this centrality. We might focus in our analysis on the use of ARESE legitimacy as an argument to obtain information from the rated companies. We can also add whether the agency exploits its unique position between companies and fund managers.

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Notes

1 This definition is given by Cowton (1999) to define 'ethical investment', but the terms 'socially responsible investment' and 'ethical investment' are very often used synonymously in the academic literature and among practitioners (Sparkes, 2001). The labels 'socially responsible' investor and/or investment are used systematically in the text rather than 'ethical', even if actors used the latter term, in order to clarify the presentation.

2 *Figures and/or data are extracted from the NOVETHIC website (www.novethic.fr). ** Figures and/or data are extracted from the SRI-N-PROGRESS website (www.sri-in-progress.com).

3 Margolis and Walsh's (2003) table presenting CSP measurement tends to show that KLD evaluation has become the most popular way to assess social performance over the last 10 years in comparison with alternative measurement (e.g. Fortune reputation rating or Council on Economic Priorities (CEP) evaluation).

4 An exhaustive list of the funds can be found on the NOVETHIC website: www.novethic.fr

5 For a complete listing see www.sri-in-progress.com

6 We can provide further information about these interviewees on request.

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Appendix

These sentences are extracted from the self-presentation document of ARESE titled 'Investment & sustainable development' (*source*: ARESE website)

Investment criteria

In order to respond to such considerations and to allow the development of sustainable investment funds, ARESE puts at the disposal of its clients a unique, expert and independent, information and rating service. This social and environmental analysis of companies is based on a methodology taking into account the company and its relations to stakeholders at both local and international level:

Employees relations
Employment * career * training * conditions of work * wages and benefits . . .
Environment
Prevention of environmental hazards * environmental resources and waste management * process * transport * training . . .
Customers and suppliers relations
Client management * suppliers R&D, production and distribution * customers service * TQM . . .
Corporate governance
Shareholder representation * board of Directors independence * transparency * communication . . .
Community involvement
Company action in local populations * political and charitable donations policy * sponsoring policy . . .

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