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Catherine Putnam Rankin Date

Giving Back in a Profit-Driven World:
Corporate Social Responsibility in the Mutual Fund Industry

By

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Doctor of Philosophy

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An Abstract of
A dissertation submitted to the Faculty of the
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Abstract

Giving Back in a Profit-Driven World:
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By Catherine Putnam Rankin

This dissertation is driven by the overarching research question: What is the institutionalized context within which mutual fund managers adopt and adapt CSR practices to fit their unique organizational culture? Each chapter contributes to this agenda by tackling one part of the research question. Chapter One focuses on the first part – *the institutionalized context* – by asking: What does the historical narrative of CSR in business discourse reveal about the normative standards for businesses? The institutionalized context includes those values and norms espoused in business discourse that shed light on the common meanings and prescriptions for behavior for corporate social responsibility. Chapter Two investigates the second aspect of the question – *how mutual fund managers adopt and adapt CSR practices* – by asking: How do the institutionalized pressures of CSR manifest themselves among mutual fund managers? Finally, Chapter Three addresses the final aspect of my research agenda – *the fit to organizational culture* – by asking: How does the enactment of CSR practices reflect innovations in organizational culture?

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**ACKNOWLEDGMENTS**

I am grateful to Dr. John Burton, my mentor at Connecticut College, who inspired me to pursue a career in academia and who gave me the following words of wisdom: “Writing a dissertation is not something that is good to do, it is something that is good to have done.” Only now do I understand the full import of this statement.

Thank you to all the people who willingly offered their time, talents, and expertise to guide and inform my research. I was overwhelmed by the generosity of my research respondents in opening their businesses and personal experiences for me to mine.

To my advisor, Dr. Timothy Dowd, who gently steered me in the right direction throughout my tenure at Emory University while giving me the freedom to pursue my own path. I thank you for helping to make my work stronger, clearer, and more relevant. To Dr. Richard Rubinson who provided invaluable comments on earlier versions of this dissertation, thank you for being genuinely interested in my research and reminding me to ask the questions I had overlooked in my embeddedness. Dr. Matthew Archibald, I thank you for our shared collaborations and for all your insight into my work. Dr. Jill Perry-Smith I am grateful for your unique organizational perspective, your career advice, and your business acumen.

Dr. Kendralin Freeman, thank you for reminding me that failure was not an option. We started this journey together, your support was unwavering, and I am honored to be at your side as we take the next steps in our lives.

Without my family this dissertation, and PhD, would mean very little. I thank God for blessing me with an amazing family who has provided invaluable support and encouragement. To my parents, thank you for teaching me the importance of education, hard work, humility, love and respect, and, for providing the inspiration for my dissertation research – a business that is both good and successful. Anne, I have always looked up to you for your fortitude, poise, business savvy, and, most importantly, unconditional love. Thank you for always leading the way. To Anna and Rob, who offered me unending words of encouragement, thank you.

Robert, words cannot describe the multitude of your support for me the throughout this *long* process. You made so many sacrifices so that I could fulfill this dream. I am forever grateful; thank you for being an amazing husband, father, and intellectual partner. To our two little miracles, Lucy and Thomas, I hope that one day you will understand that this was for you too.

To all of you thank you for believing in me, supporting me, and subtly reminding me that it was time to be done.

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# INTRODUCTION

I grew up in a family investment business where ethical behavior and moral virtue were an integral part of every business decision. Though my parents never talked about corporate social responsibility (CSR) in so many words, it was clear that being a good citizen was part of being a good business. My parents stressed the importance of best employment practice, ethical corporate behavior, and giving back to the community. Yet, when I embarked upon my research agenda, investigating corporate social responsibility within the mutual fund industry, I quickly discovered that few people relate to an investment business that is *good*. My conversations shared a common thread – skepticism. When I confirmed that my research focused on CSR in the mutual fund industry I usually heard one of three responses: the cynical "Hmm . . . well that should be interesting", or the distrustful "Is there any?", or, finally, the mocking "Well you don't have much to study then, do you?" These responses should come as no surprise as the investment industry has been mired in shadows of scandal and public distrust. To say the industry has gotten a bad name is an enormous understatement. These conversations reflect the sentiments of millions of Americans who are fed up with the excess and greed they equate with Wall Street investment firms.

My dissertation investigates how the norms of corporate social responsibility direct corporate behavior within the mutual fund industry. This research study is now, more than ever, essential. My analysis illuminates the different ways that individual mutual fund companies react given pressures to do good deeds. Not all mutual funds embrace the notion of CSR, but, a surprising number do so in innovative ways. My focus on twenty-six mutual fund organizations will hopefully dispel some of the overgeneralized tales of greed and corruption by showing that CSR is more prevalent and varied than many assume. By investigating socially responsible investment (SRI) funds and non-SRI funds, I can compare and contrast approaches and understandings of what it means to be socially responsible in two types of mutual fund firms. SRI funds use positive and negative screens to evaluate organizations based on social, environmental, and corporate governance criteria. Organizations that do not meet the standards of the criteria are excluded from investment portfolios. While socially responsible investing is one way to interpret the norm or corporate social responsibility, it is not the only practice that indicates that a mutual fund organization is socially responsible.

### ***Corporate Social Responsibility***

The idea of the benevolent *for-profit* organization that addresses social as well as economic concerns is not new. As early as the 1930s, organizations were revered for upholding their "responsibility" to extra-profit motives by improving labor standards and employee benefits (Barnard 1938; Bendix 1956; Perrow 1986: 62-63). Then in the 1950s, scholarly work to introduce and develop the concept of CSR gained momentum. Specifically, Howard Bowen wrote *Social Responsibilities of the Businessman* (1953), leading to further academic discourse on the topic in the 1960s (Carroll 1999). According to Bowen, social responsibilities of business referred to "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Carroll 1999 citing Bowen 1953:44).

As discussion on the topic of CSR increased in the 1960s and 1970s, so too did the attempts to define the construct. I have outlined several prominent definitions here that Carroll (1999) cites in his review of the evolution of corporate social responsibility.

> ". . . businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest." (Davis 1960:70)
>
> "The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations." (McGuire 1963:144)
>
> "Businessmen apply social responsibility when they consider the needs and interests of others who may be affected by business actions, in so doing, they look beyond their firm's narrow economic and technical interests." (Davis and Blomstrom 1966: 12)
>
> "A socially responsible firm is one whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation." (Johnson 1971:50)
>
> ". . . social responsibility means the commitment of a business . . . to an active role in the solution of broad social problems, such as racial discrimination, pollution, transportation, or urban decay." (Eilbert and Parker 1973:7)
>
> "Social responsibility usually refers to the objectives or motives that should be given weight by business in addition to those dealing with economic performance (e.g. profits)." Some examples of CSR include "[e]mployment of minority groups, reduction in pollution, greater participation in programs to improve the community, improved medical care, improved industrial health and safety—these and other programs designed to improve the quality of life are covered by the broad umbrella of social responsibility." (Backman 1975:2-3)

What all these definitions have in common is the idea that business has an obligation to society beyond direct profit motives or legal compliance. More recent attempts to define succinctly the concept of corporate social responsibility have been less successful because scholars disagree on the extent to which companies should be socially responsible, differ on what behaviors fall under its umbrella, and have been unable to adequately capture its dynamic nature (see, e.g. Devinney 2009; Campbell 2007; Carroll 1999; Maignan and Ralston 2002; Matten and Moon 2008; Roberts 2003; Rowley and Berman 2000). These recent academic discussions have tended to focus on the duplicity of the concept rather than striving for parsimony. Carroll's (1999) definition strikes me as the most useful and enduring conceptualization. I use his definition for this paper:

> CSR involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. . . . .The CSR firm should strive to *make a profit, obey the law, be ethical, and be a good corporate citizen.*" (Carroll 1999: 286, citing Carroll 1983, 1991)

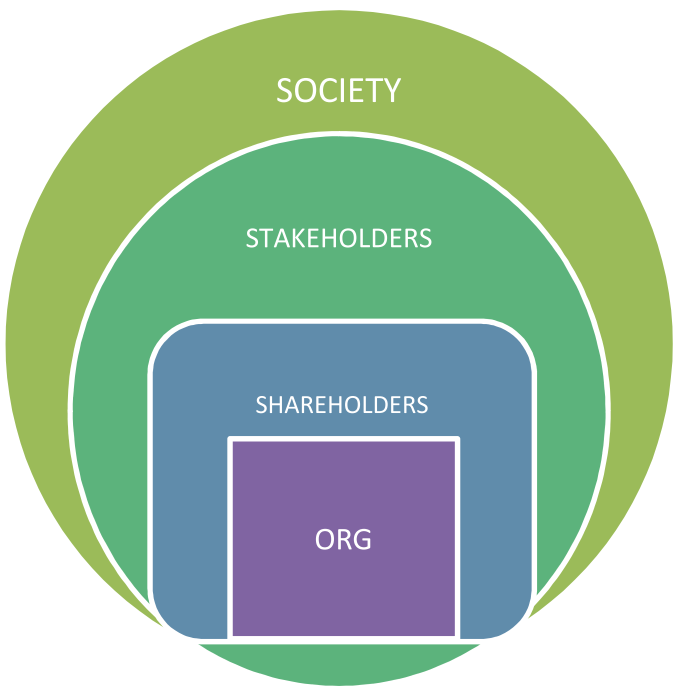
With this definition corporations must balance economic and legal requirements with social and ethical considerations. Adherence to the four standards of economic, legal, ethical, and philanthropic standards can cause organizations to fall on a continuum between "minimal responsibility" and "maximum responsibility" (Campbell 2007; Carroll 1979, 1999; Eells 1956; Walton 1967; Zenisek 1979). A minimally responsible organization is one that does not cause harm to their stakeholders and seeks to rectify any harm that has occurred (Campbell 2007). An example of a minimally responsible organization is one that seeks profit maximization and refrains from illegal or unethical practices.

In a "maximum responsibility" view, corporations have a moral obligation that extends the minimal criteria to positive actions that improve social welfare (e.g. Devinney 2009; Marquis, Glynn, and Davis 2007; McWilliams and Siegel 2001). Marquis, Glynn, and Davis (2007) define this maximum view of social responsibility as "behaviors and practices that extend beyond immediate profit maximization goals and are intended to increase social benefits or mitigate social problems for constituencies external to the firm (925)." An organization may fall on the positive end of the continuum by engaging in community initiatives that improve the quality of life for people outside the direct umbrella of the corporation. If we understand corporate social responsibility as a continuum between minimal responsibility and maximum responsibility, we find that CSR can include several disparate practices including guaranteeing employee benefits, fair labor standards, product safety, commitment to diversity and equality in hiring practices, green initiatives, corporate giving, community service involvement, partnerships with the third sector, and corporate accountability and governance standards.

Another way to analyze the problem of corporate social responsibility is by looking at to *whom* an organization is responsible. Stakeholder theory predicts that the power of different stakeholders on the firm will impact the behaviors that corporations undertake (Campbell 2007; Clarkson 1995; Roberts 1992; Ullman 1985). Corporations can claim responsibility to few stakeholders or many (Devinney 2009). By examining to whom an organization might be responsible, we can better understand the different ways organizations justify and participate in CSR. If an organization focuses solely on its economic responsibility, the conception of CSR is narrow: a corporation is mainly responsible for itself and its shareholders. Economists often argue in this vein that businesses have a simple responsibility – to make money (*see, e.g.* Friedman 1970; McMillan 2007; Karnani 2010). Others would cite the organization's responsibility to its shareholders to maximize their wealth (*see, e.g.* Useem 1999).

As you add layers of responsibility – legal, ethical, and philanthropic – the corporation also expands to whom it is responsible (see Figure 1). In legal responsibility, for example, the organization becomes responsible not only to itself, but also shareholders, employees, and consumers by adhering to laws proffered by the state. Such laws can provide standards for equal employment opportunities, safe labor conditions, and consumer safety. If an organization focuses on ethical responsibility, the boundary of where the organization begins and ends fades. The organization becomes responsible to all of its diverse stakeholders in providing ethical leadership, practices, and products. Finally, if we consider the organization to have a philanthropic responsibility, the organization becomes responsible to itself, shareholders, all stakeholders, and the broader social good. The organization may incorporate practices of corporate giving, volunteerism, or community partnerships.

**Figure 1: To whom are organizations responsible?**




***Why Do Organizations Participate in CSR?***

While social and economic goals are seemingly unconnected, organizations may reference the connections that CSR has to economic motives in their justifications of

CSR practice. First, organizations may incorporate CSR to improve their public image in response to the visibility on a firm's negative social and environmental impact. Second, organizations may justify CSR based on a belief that the practices will attract particular clients or consumers. Third, participation in socially responsible behaviors might be justified under the belief that it boosts employee morale (Bornstein, 2004; Lounsbury, 2001; Marquis, Glynn and Davis 2007; Rao, 1998). What is interesting, however, is that organizations often incorporate corporate social responsibility without any direct evidence of these connections.

The organizational benefit of adopting corporate social responsibility is unclear. A 2003 review piece by Margolis and Walsh examined the connection between CSR practice and corporate financial performance over a thirty year period between 1972 and 2002. Of the 127 empirical pieces they assessed from 1972-2002, only fifty-four had significant, positive associations between social performance and financial performance when social performance was the independent variable. The ambiguity of these results suggests that organizations participate in CSR practice without a clear understanding of its economic impact for the firm.

It is common for organizations to make decisions without a clear understanding of the consequences. Perrow (2002) argues that "large chunks of social life are not subject to continuous rational inquiry in terms of costs and benefits, as economists might think, but are simply taken for granted" (124). In fact, Margolis and Walsh (2003) argue that organizations may be less concerned with economic motives and more likely to engage in CSR practice because it's "the right thing to do" (282; Galaskiewicz 1997; Tetlock 2000). Furthermore, they suggest that we, as organizational scholars, should be less focused on trying to trying to make the link between social and economic performance and more concerned with understanding the conditions under which an organization can benefit society. In this dissertation, I investigate the taken-for-granted nature of CSR and the impact that its norms have on the organizational field and individual organizations.

***The Debate over CSR***

Not all companies connect social and economic agendas. In fact, many scholars argue that corporations *should not* pursue corporate social responsibility. In 1970 Milton Friedman wrote the now infamous treatise on CSR. He asserted that the sole responsibility of business was to make a profit. Friedman argues, “there is one and only one social responsibility of business—to use it resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman 1970). Friedman, a revered economist, was decisive in his distaste for the call for corporations to address social as well as economic concerns. Businessmen, as agents of the corporation, should focus on the best interests of the company and those who hired him – the shareholders. Friedman’s dismissal of the “social responsibilities” of corporations signaled the beginning of the debate over corporate social responsibility.

In 1977, the Sullivan Principles were developed urging corporations to adopt corporate codes of conduct. The principles established by Reverend Leon Sullivan, a then member of General Motors’ Board of Directors, exemplified a new era of corporate responsibility. American corporations widely adopted the principles that emphasized equality, diversity, and fair treatment of employees within the workforce. In the 1980s, these principles were extended to include divestment of South Africa (Patten 1990). The investment industry quickly took the lead to follow these initiatives creating investment vehicles that excluded stocks from South Africa and the socially responsible investing (SRI) movement took flight[1].

Today, the debate continues over whether companies *should* focus on social concerns as a part of business practice. Dr. Aneel Karnani, economist at Michigan's Ross School of Business, recently echoed Friedman's treatise on CSR while he, once again, called corporations to focus on the bottom-line. He argues that "[i]t is the relentless maximization of profits, not a commitment to social responsibility, that has proved to be a boon to the public" or to benefit the social good (*WSJ*, August 23, 2010). He even chastised attempts by corporations to be socially responsible as simple extensions of their public relations and marketing tools. Regardless of where you fall on the debate over whether social concerns should be a part of business practice it is clear that corporations, regardless of their motivations, are incorporating practices of social responsibility in a multitude of ways. Activities that fall under the broad umbrella of CSR are now commonplace throughout the business community – CSR has become a normal part of organizational practice. Now I turn to a brief analysis of the mutual fund industry and why it is an ideal case study for my research.

***The Mutual Fund Industry***

The U.S. mutual fund industry has its origins in the 1920s and 30s with the development of the first mutual funds in the 1920s in Boston, the establishment of a

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[1] The origins of socially responsible investing date back to Biblical times where Jewish laws dictated how money could be invested based on religious and ethical values. More recently, the 1960s progressive movements raised social concerns about civil rights, women in the workplace, democracy and peace. In the 1970s and 80s , these issues expanded to include management, labor issues, anti-nuclear sentiment, and the environment. Individuals, churches, cities, states, and investment companies proliferated that incorporated social investment criteria into their investment vehicles (Scheuth 2003).

regulatory body for mutual funds in 1934 (the U.S. Securities and Exchange Commission), and the establishment of the National Committee of Investment Companies (later to be known as the Investment Company Institute) in 1940 - a trade association that would facilitate the industry's functioning in its regulatory framework (Fink 2008; Investment Company Institute 2010).

Mutual funds were created by investment companies as an alternative to once popular closed-end fund. Mutual funds pool large amounts of money among hundreds, thousands, or even millions of investors. These pools are then used by the investment managers to buy diverse stocks, bonds, or other securities in line with the investment company's investment philosophy. Each investor that contributes money to the fund gets the advantage of the diversified portfolio of the fund's entire pool of investments (Fink 2008).

There are three main factors that make the mutual fund industry an ideal case study within which to investigate the institutionalization of corporate social responsibility. First, the American investment industry has been shocked by several industry-wide scandals including: the instances of accounting fraud in the early 2000s, the illegal late trading practices of 2003 that implicated over twenty mutual fund companies, the Madoff investment scandal that came to light in 2008, and, the recent outcry against fat salaries on Wall Street at the expense of Main Street. As a result, the investment industry is at the center of regulatory and social pressures to reform. The investment industry offers a prime case study to examine how institutional pressures impact individual organizations as the industry is struggling to improve its reputation.

Mutual fund organizations are, therefore, more likely than organizations in other industries to be currently wrangling with how CSR practice can fit into their organization.

The second reason I focus on mutual fund companies, in particular, is that a segment of the industry has formalized the notion of social responsibility into their investment product line. Mutual fund companies that incorporate socially responsible investing (SRI) represent a unique form of corporation that explicitly pursues social as well as economic goals. In many ways these organizations are part of the social movement that calls for socially responsible behavior among their peers. A focus on the mutual fund industry allows me to analyze comparatively the process of institutionalization among firms that practice SRI and those who do not have a socially responsible investment product.

Finally, an investigation of the mutual fund industry is ideal because of the enormous influence it wields on the U.S. economy and American corporate culture. At the end of 2009, mutual fund companies managed over $12 trillion in assets worldwide and represented nearly 90 million U.S. investors (Investment Company Institute 2010). This market position coupled with its recent history of scandal and segment of organizational specialization puts the investment industry at the center of political, media, social movement, and public attention. It can be a model for good and bad behavior. Due to these three factors, the mutual fund industry is an ideal prototype for my research agenda.

***Gaps in the Research***

Previous sociological research has illuminated the ways in which institutional norms are developed and how they change organizational structures as they spread across organizational fields (Baron et al. 1986; Dobbin et al. 1993; Kelly and Dobbin 1999; Dobbin and Dowd 2000; Scott et al. 2000). Institutional norms are generally accepted prescriptions for behavior that become taken-for-granted and are sanctioned and rewarded (Parsons 1990). This research tradition has highlighted how, at the aggregate level, institutions infiltrate and influence organizational policies (Kelly and Dobbin 1999), structures (Baron, Dobbin and Jennings 1986; Scott et al. 2000), forms (Dobbin and Dowd 2000; Fligstein 1985; Navis and Glynn 2010) and logics (McAdam and Scott 2005; Scott et al. 2000). In their investigation of the healthcare industry, for example, Scott and his colleagues (2000) found that dominant institutional logics in different eras spurred changes in throughout the healthcare field in terms of hospital leadership and structure.

Corporate social responsibility has become the focus of several organizational and management scholars. These scholars provide rich theoretical and empirical support for 1) community differences in CSR (Galaskiewicz 1997; Marquis, Glynn and Davis 2007), 2) the tension between CSR and financial performance (Margolis and Walsh 2001; 2003; Waddock and Graves 1997) 3) the ways that CSR impacts organizational identity (Markowicz 2007; Bartel 2001) 4) the impact of organizational leaders on CSR policies (Martin, Knopoff & Beckman 1998), and 5) institutional factors that should impact CSR (Campbell 2007).

Institutional and corporate social responsibility scholars have developed a strong theoretical framework for understanding why organizations may incorporate practices of CSR. My research contributes to the research by first identifying the nature of business discourse on corporate social responsibility from 1990 to 2010. This historical narrative will highlight how different meanings for CSR rise to prominence and take on normative power to signal appropriate behavior for the mutual fund community. Then, I address the ways in which *specific* organizations interpret and incorporate these normative standards for CSR in business practice. I investigate both sources of homogenization and differentiation in CSR meaning making and practice among mutual fund firms. The dissertation provides rich data and analyses that illuminate the varying responses of organizations to normative pressures. My analysis will both extend theory and provide theory testing in the areas of corporate social responsibility, institutionalization, organizational culture, and organizational change.

***Dissertation Outline and Research Questions***

This dissertation is driven by the overarching research question: What is the institutionalized context within which mutual fund managers adopt and adapt CSR practices to fit their unique organizational culture? Each chapter contributes to this agenda by tackling one part of the research question. Chapter One focuses on the first part – *the institutionalized context* – by asking: What does the historical narrative of CSR in business discourse reveal about the normative standards for businesses? The institutionalized context includes those values and norms espoused in business discourse that shed light on the common meanings and prescriptions for behavior for corporate social responsibility. Chapter Two investigates the second aspect of the question – *how mutual fund managers adopt and adapt CSR practices* – by asking: How do the institutionalized pressures of CSR manifest themselves among mutual fund managers? Finally, Chapter Three addresses the final aspect of my research agenda – *the fit to* *organizational culture* – by asking: How does the enactment of CSR practices reflect innovations in organizational culture?

Chapter One provides evidence on the normative nature of corporate social responsibility in business discourse. Scholars who investigate institutionalization and CSR have not yet shown the diverse ways that CSR has become normative for American business (*see, e.g.* Marquis, Glynn and Davis 2007). I recognize that institutionalization of CSR may not necessarily be as absolute or monolithic as one would assume. I investigate the normative nature of corporate social responsibility in business discourse with its complex undulations and variations. This historical narrative illuminates the prominent issues and events that shape the discourse in different periods. I approach this topic by documenting the emergence and diffusion of CSR in the business press from 1990-2010. My content analysis of over 1000 articles from *Barron's, Business Week, Forbes, Fortune, Money,* and the *Wall Street Journal* uses thematic and content prevalence codes to map out the institutionalized context of CSR in business discourse.

Campbell (2007) proposes that businesses that operate in "an environment where normative calls for [CSR] behavior are institutionalized in . . . business publications" will be more likely to act in socially responsible ways (959). I follow his logic and argue that mutual fund firms will be more likely to act in socially responsible ways based on the institutional nature of discourse I describe in Chapter One. An understanding of this context allows me to next address how particular organizations – mutual funds – interpret institutional pressures by incorporating common meanings and practices related to CSR. Mutual funds are embedded within the broader social context of business discourse and, as such, should be impacted by the thematic patterns found in chapter one. Chapters Two and Three investigate how particular organizations, those who have a socially responsible investment product versus those who do not, vary in their identification and reaction to institutional pressures. I focus first on the ways that organizations react in homogenous ways and then on their differentiation.  My data come from semi-structured in-depth interviews within twenty-six mutual fund organizations half of which have a SRI product.

## CHAPTER I: Institutionalized Shifts of Corporate Social Responsibility

"[C]orporate social responsibility (CSR) has become a business imperative. Newspapers, magazines and books glowingly describe the business benefits of behaving responsibly—and caution managers about the business risks of a poor CSR performance. Executives are repeatedly informed that by demonstrating concern for the environment, human rights, community development and the welfare of their employees both in the U.S. and abroad, they will make their firms more profitable. Their firms will gain a competitive advantage by appealing to the growing numbers of socially and environmental oriented consumers, investors and employees."

- *Forbes*, 10/16/08

G.E. launches an ecoimagination initiative, Liz Claiborne educates consumers on domestic violence, Unilever ceases investment in the Sudan, Starbucks extends benefits for employees with disabilities, AIG names independent directors to its board, and Abbott gives away AIDS drug to developing countries. These disparate actions have all been labeled, in the business press, as examples of corporate social responsibility (CSR). As these accounts reveal, organizations adopt many different practices under the rubric of CSR. This chapter analyzes business discourse from 1990 to 2010 to reveal multiple facets of corporate social responsibility. As stated in the introduction, CSR practices fall on a continuum from "minimal" to "maximum" responsibility and involve "the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. . . . .The CSR firm should strive to *make a profit, obey the law, be ethical, and be a good corporate citizen*" (Carroll 1999: 286, citing Carroll 1983, 1991).

Through analysis of business discourse from 1990 to 2010, I investigate the historical process through which meanings about corporate social responsibility reflect current social, political, and economic realities. This chapter illustrates how these realities change over time impacting what is considered socially responsible behavior (Campbell 2007). By investigating the historical narrative of CSR, we can better understand the normative standards that are present in business discourse. Then, subsequent chapters will reveal how these standards impact the process through which firms incorporate different tenets of corporate social responsibility.

My overarching research question addresses the institutionalized context within which mutual fund managers adopt and adapt CSR practices to fit their unique organizational culture. In this chapter I address the first part of this research question, *the institutionalized context*, by asking: What does the historical narrative about CSR in business discourse reveal about the normative standards for businesses? The institutionalized context I refer to here includes those values and norms espoused in business discourse that shed light on the common meanings and prescriptions for behavior for corporate social responsibility. I develop a historical narrative that identifies key themes and events that shape discourse about CSR from 1990 to 2010. This narrative provides evidence on periods of cultural change in CSR discourse and its meanings for the current business community.

## LITERATURE REVIEW

### ***CSR and Cultural Change***

Swidler (1986) defines culture as symbolic vehicles of meaning, including beliefs, ritual practices, art forms, and ceremonies, as well as informal cultural practices such as language, gossip, stories, and rituals of daily life. These symbolic forms are the means through which 'social processes of sharing modes of behavior and outlook within

[a] community' take place" (273, quoting Hannertz 1969: 184). Culture often provides the lens through which actors make sense of their world. American corporations must turn to cultural forms to interpret and understand the appropriate ways to behave. Analysis of the term "corporate social responsibility" in business discourse reveals how different meanings attributed to CSR arise to prominence and take on normative power. This analysis establishes the historical narrative of CSR from 1990 to 2010.

In their analysis of "keywords", one cultural manifestation, Ghaziani and Ventresca (2005) analyze how shifting meanings for a particular keyword, "business model", represents cultural change. They argue that "[k]eywords chronicle and capture cultural change by creating common categories of meaning" (524). By investigating how CSR takes on new and multiple meanings over time we can understand how cultural changes impact the normative standards that are dominant (524; *see also*; Barley and Kunda, 1992). Media coverage of cultural products, including discourse surrounding key words, can indicate what meanings are seen as legitimate during particular time periods and how these meanings evolve over time (Bourdieu 1993; Ghaziani and Ventresca 2005; Janssen, Kuipers and Verboord 2008; Deephouse and Suchman, 2008).

Cultural change and its institutionalization is a dynamic process (Zucker 1977). "Institutionalization" refers to the process through which norms or patterns of behavior attain a rule-like status and become taken-for-granted (Jepperson 1991). Institutional scholars are particularly interested in the ways that dominant interpretations win out among many alternatives (*see, e.g.* Fligstein 1985; Dobbin et al. 1993; Kelly and Dobbin 2000). They have identified several ways in which cultural change occurs. In this chapter I will investigate three of these processes. The first process of cultural change is institutional isomorphism, the second is through competing institutional logics, and the final is through deinstitutionalization. Though these three processes are theoretically distinct, in practice they are often intertwined. In their introduction to the special issue on institutional change, Dacin, Goodstein, and Scott (2002) highlight the ways that isomorphism acts in combination with other sources of change including deinstitutionalization and competing institutional logics. My analysis reveals how each of these processes of cultural change interact using the example of representations of corporate social responsibility in the business press from 1990 to 2010.

### ***Homogenization of Cultural Meaning: Institutional Isomorphism***

Institutional theorists suggest that organizations in particular organizational fields come to look alike over time – they become homogenized in terms of organizational structure (Fligstein 1985), employee policies (Baron, Dobbin & Jennings 1986; Kelly and Dobbin 1999), and business strategies (Dobbin and Dowd 1997). DiMaggio and Powell (1991) develop the concept of isomorphism to explain why there has been, in general, increasing homogenization within organizational fields. They assert that three mechanisms influence the adoption of isomorphic models by organizations within a field: (1) coercive isomorphism, (2) mimetic isomorphism, and (3) normative isomorphism. In this chapter, I investigate how these pressures impact organizational fields at an aggregate level – through business discourse. In the next chapter I will investigate how specific pressures can impact individual mutual fund organizations.

Coercive isomorphism occurs when both formal and informal pressures are imposed on an organizational field or industry by those in power. These coercive pressures can include laws, court cases, or government mandates which constrain the ways in which businesses can act. Mimetic isomorphism includes the process under which organizations, when confronted with uncertainty, will adopt organizational models that they have seen to be successful. Organizations will copy the model used by other organizations that they see as powerful or successful actors in the field. Finally, normative isomorphism stems from professionalization. DiMaggio and Powell define professionalization as "the collective struggle of members of an occupation to define the conditions and methods of their work, to control the 'production of producers' and to establish a cognitive base and legitimation for their occupational autonomy" (70). Industry associations are often arbitrators that define appropriate practices and policies for their industries. The development of these associations, and their self-regulatory adoption of best practices, can pressure actors within organizational fields to act in similar ways.

In 1992 the professional trade association Business for Social Responsibility (BSR) formed to address issues of corporate social responsibility in the global marketplace. The formation of BSR signaled an attempt by industry leaders to form a self-regulatory body to improve corporate social performance (Tashman and Rivera 2010). BSR is unique in that it is a business association that engages with companies in multiple industries. Other professional associations in the area of CSR tend to focus on one industry or specific social responsibilities (e.g., The Social Investment Forum (socially responsible investing), CERES (investing and sustainability)). BSR currently has over two-hundred fifty members including McDonald's, Gap, General Electric, Ford Motor Company, Nike, Wal-Mart, Walt Disney, and Sony (http://www.bsr.org/en/ ournetwork/member-list). Normative isomorphism occurs as a result of industries engaging in self-regulatory practices and following best practices or standards set forth by professional associations. I expect that the formation of Businesses for Social Responsibility in 1992 will impact the discourse on social responsibility by increasing its prominence in the period following BSR establishment.

**Hypothesis 1A: Following the incorporation of Business for Social Responsibility, discourse on corporate social responsibility will increase.**

I expect coercive isomorphism will help explain some changes in discourse surrounding corporate social responsibility. Discourse on CSR is fraught with discussion over whether organizations have a legal obligation to comply with socially responsible standards or whether they are act of their own accord. Following the accounting and mutual fund scandals of the late 1990s and early 2000s, in particular, coercive pressures became manifest including government mandates, corporate criminal liability cases, new investment laws, and extensive SEC regulations. The Sarbanes-Oxley Act of 2002, in particular, vastly expanded the standards for business practice and governance. According to Ball (2009), "the Sarbanes-Oxley Act provides the most extensive regulation of the securities markets since the Securities Act of 1933 and the Securities Exchange Act of 1934, which among other things created the SEC" (290). The Act substantially expands compliance and reporting standards for U.S. business. Following its implementation we would expect discourse on CSR to focus on compliance and governance issues while other topics such as environmentalism should decrease. Coercive pressures create constraints on organizations that limit the number of acceptable strategies that organizations can take. This leads to isomorphism or homogenization of meaning systems.

**Hypothesis 1B: Discourse related to CSR will show an increase in emphasis on governance and compliance issues in the period surrounding the Sarbanes Oxley Act of 2002. Other themes should decrease in prominence.**

On May 17, 2005 General Electric released its first-ever "Citizenship Report" (*WSJ*, 5/16/2005). A June 27, 2005 article in *Business Week* focused on General Electric's report expressing the view that "GE is a management trendsetter . . . other companies are sure to follow suit in their annual reports" (*Business Week*, 6/27/2005). The General Electric report focused on the firm's behavior in the areas of corporate governance, the environment and corporate responsibility, in general. According to the theory of mimetic isomorphism actions by leading U.S. companies should impact the organizational field by increasing attention to the topic and, ultimately, changing organizational behavior. In this chapter I focus on how discourse is impacted by mimetic pressures. I expect that discourse on CSR will increase following General Electric's historical "Citizenship Report".

**Hypothesis 1C: Following the publication of the GE Citizenship Report CSR discourse will increase.**

***Fluctuations in Institutionalization: Shifting Institutional Logics***

While the model of homogenization has consistently been illustrated in organizational studies, scholars also suggest that cultural models are sometimes in conflict. Institutionalization is often a "contested" process (Friedland and Alford 1991). Cultural categories of meaning are in debate when opposing categories or "logics" exist to counter the validity of the category. Institutional logics include "the belief systems and related practices that predominate in an organizational field" (Scott 2001: 139; Friedland and Alford 1991). Friedland and Alford (1991) assert that when institutional logics are potentially contradictory individuals can exploit the contradictions in the logics to transform existing relations in society (232).

Corporate social responsibility can be seen as one type of belief system or cultural model that can be both in alignment with and in conflict with other institutional logics. The underlying principles behind CSR are that organizations have a responsibility to something outside primary business returns. Logics in the business world often see this as counterintuitive. Business leaders, economists, and politicians offer a counterlogic to CSR when they argue that organizations only have a responsibility to their shareholders and the bottom line (*see*, *e.g.* Friedman 1970; Drucker 1984, Karnani 2010). Atkins, a prominent business advocate, argued in a 2006 Forbes commentary on social responsibility that "the notion that the corporation should apply its assets for social purposes, rather than for the profit of its owners, the shareholders, is irresponsible".

Swidler (1986) suggests that during "contested" or "unsettled" times cultural models are in competition with other cultural frameworks, or, logics (279). Contested times include periods where the meaning of the cultural concept in question is under attack or new issues arise that force a reinterpretation of the cultural concept. Ghaziani and Ventresca specify these unsettled times as "moments when incumbent institutional arrangements are in transition and contested in public talk" (528). These moments or events occur when a particular viewpoint, either for or against the model, is expressed. Following a contested time discourse on the topic in question should increase (Swidler 1986, 2001; Ghaziani and Ventresca 2005).

**Hypothesis 2A: Following a contested time in CSR discourse the overall prominence of the discourse will increase.**

### *Fluctuations in Institutionalization: Silence in the Debate*

Institutional theory suggests that institutionalization – the attainment of a normative or taken-for-granted status – is a dynamic process that can include periods of deinstitutionalization and reinstitutionalization (Jepperson 1991). The process of institutionalization is not fluid. Instead, in different time periods prominent cultural themes surrounding CSR may weaken or disappear becoming more or less institutionalized (Jepperson 1991; Scott 2001). Deinstitutionalization, or an exit from its taken-for-granted nature, could take place following a contested time in the discourse surrounding a particular theme (Friedland and Alford 1991). For example, slavery became deinstitutionalized in our country only after years of struggle and debate surrounding the practice. In today's discourse we would not find attention to the topic.

**Hypothesis 3A: A decline in the discourse surrounding a particular CSR theme -- time of silence – following a peak in the discourse – a contested time – will represent the deinstitutionalization of that aspect of CSR.**

Alternatively, scholars suggest that once a cultural concept has become institutionalized that signals that is has become taken-for-granted and no longer needs to be debated (*see*, *e.g.* Zucker 1991). The process here is similar to the deinstitutionalization process where there is a period of heightened debate followed by a decline in the debate. In this case, the silence is caused not by deinstitutionalization of the theme as part of the concept but, rather, incorporation and acceptance of the concept into common meaning and practice. The theme becomes so widely accepted that it no longer needs to be discussed. Suffrage of women, for example, is a cultural change that is rarely discussed despite the initial controversy over its implementation. The lack of discussion on the topic here would signal that now a woman's right to vote is taken-for-granted.

**Hypothesis 3B: A decline in the discourse surrounding a particular CSR theme – time of silence – following a peak in the discourse – a contested time – will represent the taken-for-grantedness, or reinstitutionalization of that aspect of CSR.**

## RESEARCH DESIGN: METHODS AND DATA

### *Data*

In order to investigate the institutionalized context of corporate social responsibility in business discourse I identified the most prominent U.S. business publications, according to circulation numbers and duration of publication. These publications include four magazines: *Business Week* (weekly) *Money* (monthly), *Forbes* (biweekly), *Fortune* (biweekly), and two newspapers: *The Wall Street Journal* (daily) and *Barron's* (weekly). These publications provide an historical overview of the nature of business discourse dedicated to corporate social responsibility. They were chosen because they target and reach the most business readers for U.S. publications – the six publications have the highest circulation numbers in their category of business publications (see Table 1).[2] In addition, business executives frequently referenced these publications in our formal and informal conversations.

[2] Circulation numbers come from Gales Directory of Publications and Broadcast Media. 2009. "U.S. and Canada Regional Market Index". 144ed., Volume 4. Editor, Louise Gagne. Farmington Hills, MI: Gale.

**Table 1: Business Publications Description**

| NAME | ORIGIN | PUBLISHER | FREQUENCY | CIRCULATION[3] |
|---|---|---|---|---|
| Barron's | 1921 | Dow Jones & Co. | Weekly | 304,658 (paid) |
| Business Week | 1929 | McGraw Hill | Weekly | 985,029 (paid) |
| Forbes | 1917 | Forbes | Bi-weekly | 925,959 (paid) |
| Fortune | 1930 | Time, Inc. | Bi-weekly | 857,309 (paid) |
| Money | 1972 | Time, Inc. | Monthly | 1,942,531 (paid) |
| Wall Street Journal | 1889 | Dow Jones & Co. | Daily | 2,083,660 ( M-F) 2,085,852 (Sat.) |

This chapter is based on article abstracts published during the twenty year period between January 1990 and December 2009 within the six business publications selected. I searched ABI/Inform, EBESCO, and the individual publications, where necessary, to capture all abstracts of articles during this period that discuss corporate social responsibility. I searched for the following terms in order to capture the diversity of articles that fall under the concept of CSR: corporate responsibility, social responsibility, socially responsible, social action, corporate citizenship, the responsibilities of business, business ethics, business responsibility, responsible investing, social investing, responsible mutual funds, community outreach, community service, philanthropy, giving back, charitable giving, and corporate giving.

These search terms were chosen based on key words identified in my scholarly readings, pilot interviews, and during the initial search process. These terms were frequently used in the literature and among organizational respondents as being part of the broader term corporate social responsibility. After conducting the initial searches for each term, I reviewed the results by examining the abstract of each article found. I removed from the sample articles that did not fit my inclusion criteria. Abstracts that fit

[3] Gales Directory of Publications and Broadcast Media. 2009. "U.S. and Canada Regional Market Index". 144ed., Volume 4. Editor, Louise Gagne. Farmington Hills, MI: Gale.

the inclusion criteria were saved into a Word document for later analysis. The final sample of articles included 1042 unique abstracts (see Table 2).

Table 2: Sample Characteristics

| PUBLICATION | N IN SAMPLE | AVERAGE word count |
|---|---|---|
| Barron's | 112 | 1171.78 |
| Business Week | 166 | 946.31 |
| Forbes | 69 | 976.59 |
| Fortune | 85 | 1868.13 |
| Money | 22 | 1761.48 |
| Wall Street Journal | 588 | 767.73 |

***Coding Procedures***

Once my population of 1042 articles was identified I systematically coded each abstract in an Excel spreadsheet using methods of content analysis (Krippendorff 2004; Neuendorf 2002). Several sociologists use content analysis in their investigations of cultural institutionalization and change (*see*, e.g., Ghaziani and Ventresca 2005; Janssen, Kuipers & Verboord 2008). Ghaziani and Ventresca's (2005) analysis of the keyword "business model" employs a similar approach to content analysis in looking at journal abstracts and coding the content of these for further analysis while Janssen, Kuipers & Verboord (2008) used several researchers to code articles in their entirety.

Content analysis coding classifies each document by determining the presence of certain words, concepts, themes, or phrases within texts or sets of texts that are inherent to the text and relevant to the researcher's topic of study (Krippendorff 2004; Neuendorf 2002). Coding categories can include content classifications (e.g. reporting department, type of organization, name of organization, location of incidence) and thematic or categorical classifications (e.g. type of incidence, presence of weapon, presence of gunfire; number of deaths, number of injuries). I coded each abstract for article content, thematic, and prominence (wordcount, page #) codes. My code list can be found in Table 3.

**Table 3: Code List**

| Dichotomous: 0/1 | Nominal/ Categorical | Continuous | Ordinal |
| --- | --- | --- | --- |
| product safety; consumer rights/health; shareholder/client rights; employee benefits; board/management governance; executive compensation; terrorism/foreign relations/HR; sweatshops/worker rights; transparency/disclosure; environment; investment policy; religion/morality; volunteerism; corporate giving; personal philanthropy; scandal/illegal/wrongdoing; PR/profitability/performance; professional standards; government regulation; mimicry/success stories; diversity/women/minorities; NGOs; animal rights; community dev/disaster relief; education/children | Article Title<br><br>Article Type<br><br>Publication | Word Count<br><br>Page # | Date<br><br>PUBID |

The thematic codes were developed in several phases. First, I identified themes that were prevalent in the academic literature as examples of CSR behavior: corporate giving, investment policy, environmental concerns, board and management governance issues, and employee benefits. Additionally, I included some codes from organizational literature to assess the impact of government, professional standards, and mimicry. Then, I selected a small sample of initial abstracts to code and identified additional themes (e.g. diversity, animal rights, NGOs). The list of codes continued to expand and was reorganized as I tested the existing code list on my article abstracts. Furthermore, some of the thematic codes were consolidated during and after the coding process as I realized they were measuring the same or similar concepts. For example, board/management governance and executive compensation were combined into a “GOVERNANCE/

COMPLIANCE" code and employee benefits and sweatshop/worker rights were combined into an "EMPLOYEE/WORKER" code. Finally, some codes were thrown out as I recognized they were not a useful source of analysis, confusing, or subjective (e.g. social mission).

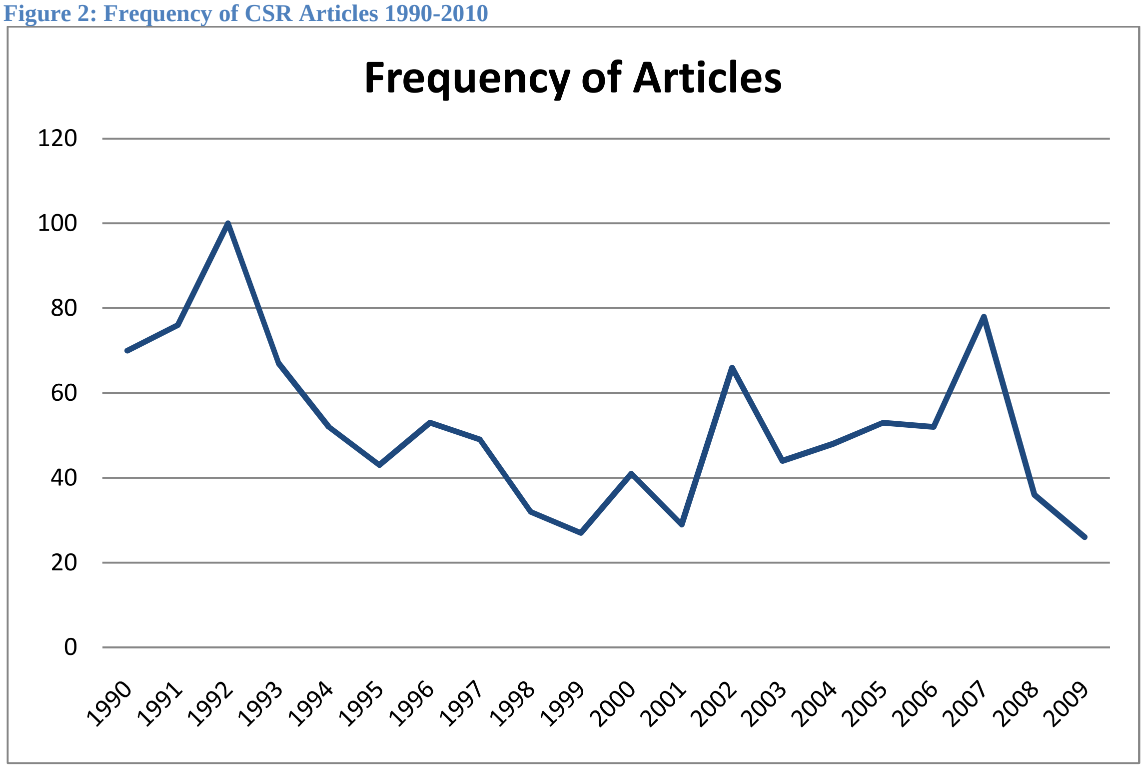
I coded each abstract for two main types of codes: article identification codes, and thematic codes. Article identification codes included title, page number, word count, date, publication, and publication id. Thematic codes were coded using a dichotomous scale referencing whether each code was present in the abstract. For example, if an article referred to socially responsible investing the "investment policy" code would be assigned a value of 1. If the article did not refer to socially responsible investing the article would be assigned a value of 0 in that category. Each document was systematically coded using an excel spreadsheet to quantify the presence of each code in an objective manner. I then imported the data into SPSS, a statistical software program, to conduct further analysis of the frequencies and patterns of the codes over time.

## RESULTS AND DISCUSSION

### *Historical Narrative*

In his review of the evolution of the definition of corporate social responsibility, Carroll (1999) examined how the concept developed in the academic community from 1950-1990. His account reveals that the "modern" conception of CSR first appeared in Howard Bowen's 1953 book "*Social Responsibilities of the Businessman*". While his account reveals the different ways that academics defined the concept, he does not highlight the prominence of this term in business discourse. My analysis begins in 1990 by looking at the nature of the discourse on CSR. Figure one shows the distribution of articles on corporate social responsibility from 1990 to 2010.

**Figure 2: Frequency of CSR Articles 1990-2010**




There are three main time periods of heightened discourse on the topic of CSR: 1990-1993, 2001-2002, and 2006-2007. The discourse in this first time period was unique as specific references to "social responsibility"[4] or "business ethics" were minimal (see Figure 2). Where they did occur, references to "social responsibility" referred to "socially responsible" investing. Articles, instead, often talked about being "charitable", "corporate charity" and "corporate philanthropy":

> "Many companies now insist on some "payback" for charitable giving, and are focusing this "strategic philanthropy" on popular causes, including the environment, education and child care." (*WSJ*, 10/11/1990)

[4] This includes references to "social responsibility", "socially responsible" and "corporate responsibility".

“Wealthy multinational US companies have recently adopted formal international *philanthropy* programs as part of their global business strategies. With foreign markets playing a greater role in the earnings outlook of US multinationals, companies are taking pains to project a positive image abroad” (*Business Week*, 2/25/1991).

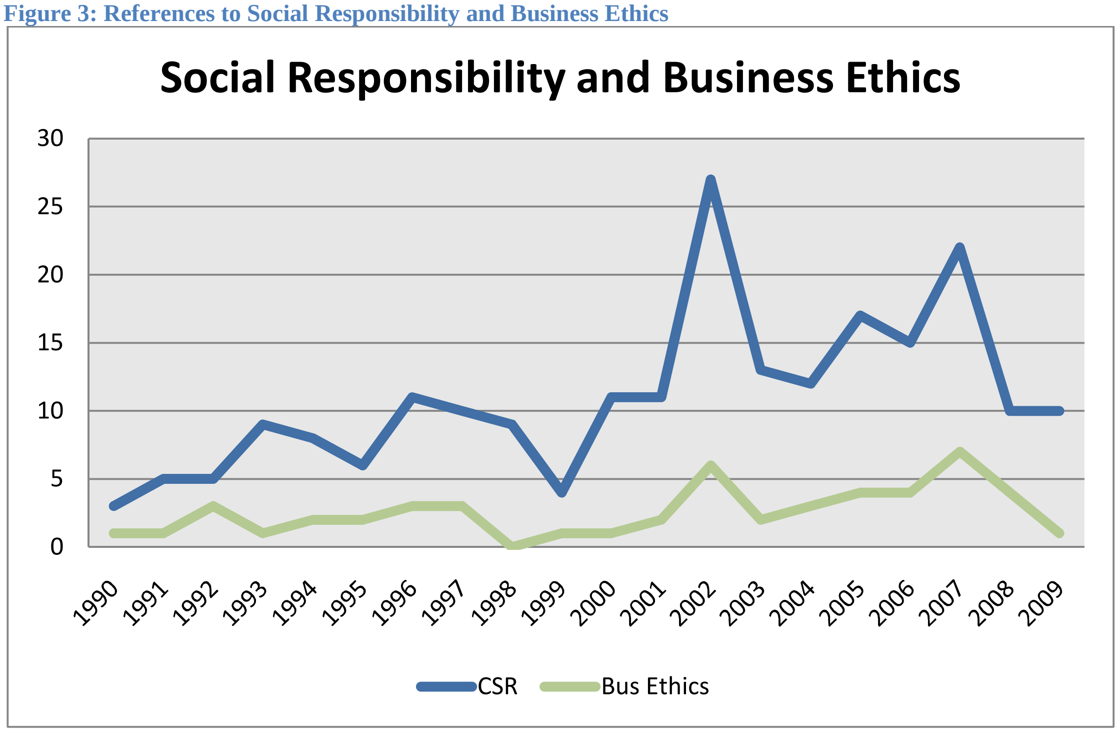
“To justify their giving, many companies target charities more directly related to their operations. Kraft General Foods Inc. donates about $10 million in foodstuffs annually to food banks and has devoted much of its foundation's $16.4-million budget to eradicating childhood hunger” (*Business Week*, 11/2/1992).

“Corporate charity is swelling for the holidays, including programs to support groups such as Meals-On-Wheels America and local food banks.” (*WSJ*, 11/19/1992)

“Black business owners often have higher social and charitable expectations placed upon them by their communities” (*WSJ*, 4/3/1992).

“Discusses how Portland, Oregon businessman and philanthropist Robert Pamplin Jr. argues that successful business people have more to bring to the table than simply money. Applying the entrepreneurial spirit to charity (*Forbes*, 10/19/1992)

**Figure 3: References to Social Responsibility and Business Ethics**



In the second two time periods 2001-2002, and 2006-2007 the terms "corporate social responsibility" and "business ethics" were more widely used. The responsibilities of business had expanded from "charity" and "philanthropy" to broader concepts that included multiple facets of responsibility. The terms "social responsibility" and "business ethics" were formalized to encompass many of these responsibilities (see Figure 3). These references often list multiple, disparate practices as falling under CSR:

> On Mar. 7 the International Organization for Standardization (ISO) will tackle global guidelines for corporate social responsibility. The voluntary standards are likely to suggest reasonable child-labor policies, promote equal opportunity for employees, ensure safe working conditions, and even make proposals about philanthropy (*Business Week*, 3/14/2005).
>
> DuPont is at the cutting edge - and maybe over the edge - of the movement to make corporations more socially responsible. But poke around any number of FORTUNE 500 companies, and you will find people grappling with a host of unexpected issues, from renewable energy to global poverty (*Forbes,* 6/23/2003).

In the next section I analyze specific themes that rose to prominence in discourse on corporate social responsibility and how specific events spurred these heightened periods of discourse.

***Distribution of Corporate Social Responsibility Themes***

Seven main themes dominated business discourse on corporate social responsibility between 1990 and 2010. These themes were referenced in over ten percent of the universe of articles: the environment (25%), corporate giving (19%), consumer/shareholder rights (17%), employee/worker benefits (13%), investment policy (12%), governance/compliance (12%), and community development (10%)[5]. Table 4

[5] These percentages do not add up to 100% as each article could reference more than one theme.

reports the percentage of articles that talked about the seven main themes in any given year.

Table 4: Seven Main Themes by Year

| | ENVIR | CORP. GIVING | CONSUM / SHARE. | EMPL/ WORK | INVEST. POLICY | GOV/ COMPL | COMM. DEVEL |
|---|---|---|---|---|---|---|---|
| **1990** | 47% | 17% | 11% | 6% | 6% | 4% | 1% |
| **1991** | 29% | 22% | 20% | 4% | 9% | 5% | 13% |
| **1992** | 22% | 23% | 15% | 15% | 3% | 7% | 15% |
| **1993** | 12% | 25% | 18% | 10% | 9% | 6% | 27% |
| **1994** | 6% | 31% | 12% | 8% | 12% | 0% | 29% |
| **1995** | 5% | 28% | 16% | 9% | 7% | 7% | 16% |
| **1996** | 8% | 9% | 8% | 40% | 13% | 8% | 11% |
| **1997** | 31% | 12% | 16% | 14% | 8% | 4% | 12% |
| **1998** | 9% | 22% | 16% | 9% | 16% | 6% | 19% |
| **1999** | 37% | 26% | 4% | 11% | 19% | 0% | 11% |
| **2000** | 20% | 22% | 24% | 2% | 22% | 7% | 5% |
| **2001** | 17% | 21% | 21% | 21% | 28% | 7% | 7% |
| **2002** | 17% | 5% | 20% | 14% | 12% | 39% | 0% |
| **2003** | 14% | 11% | 25% | 7% | 5% | 41% | 2% |
| **2004** | 23% | 8% | 19% | 13% | 27% | 25% | 4% |
| **2005** | 28% | 21% | 23% | 19% | 17% | 21% | 11% |
| **2006** | 38% | 13% | 23% | 13% | 12% | 17% | 10% |
| **2007** | 49% | 13% | 17% | 12% | 12% | 4% | 3% |
| **2008** | 36% | 22% | 17% | 19% | 25% | 6% | 3% |
| **2009** | 38% | 31% | 4% | 12% | 15% | 15% | 4% |

Other minor themes that were found in the discourse during this time period included: diversity, education, volunteerism, personal philanthropy, disclosure/transparency, human rights/terrorism, and animal rights.

*Research Hypotheses*

> **Hypothesis 1A: Following the incorporation of Businesses for Social Responsibility in 1992, discourse on corporate social responsibility will increase.**

Hypothesis 1A suggests that following inception of this multi-industry initiative to focus on corporate social responsibility discourse over corporate social responsibility should increase. Industry associations provide new standards for behavior and their actions can spur new CSR activity. Business discourse should reflect this increase in socially responsible discussion and behavior as more media attention will be paid to the new standards and increased business action. A *New York Times* piece on June 10, 1992 highlighted the founding of Businesses for Social Responsibility saying:

> “A group of more than 50 businesses is set to introduce a new "trade organization for social responsibility" in Washington today. The group, which will be called Businesses for Social Responsibility, intends to support stricter environmental and safety regulations as well as investment in a wide variety of health, education and welfare programs.”

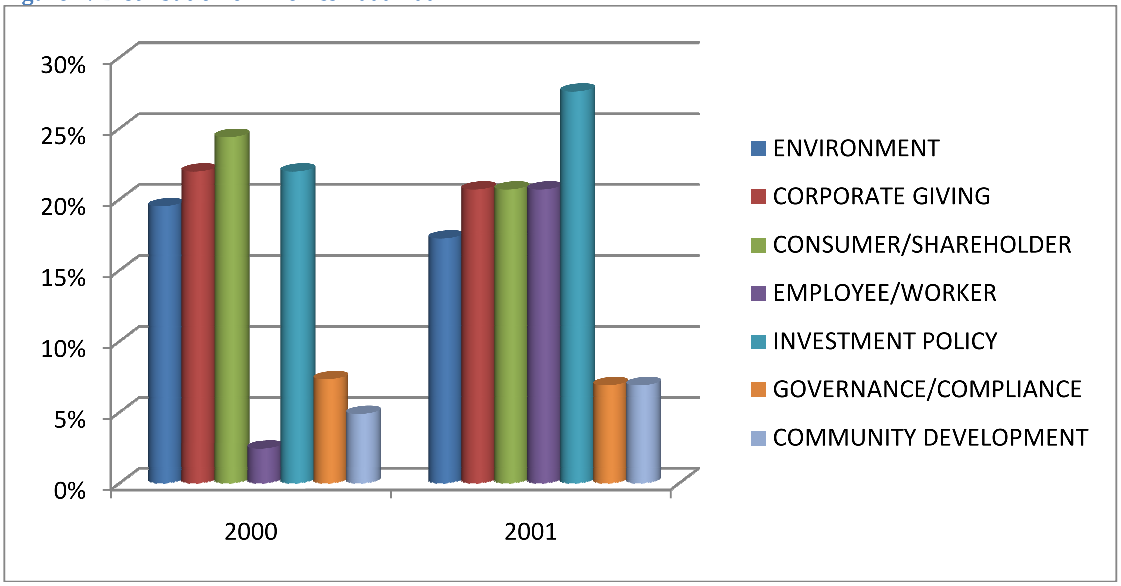
In order to evaluate the impact of the foundation of Businesses for Social Responsibility (BSR) had on business discourse I looked at the three year period surrounding its inception 1991-1993. My data reveal that this time period was important in terms of normative isomorphism. Only thirty-four articles in my entire population of 1042 focus on professional associations or industry standards. Ten of these articles appeared in the 1991-1993 period when BSR was formed (1991= 1; 1992= 5, 1993= 4). By looking at the twelve month period prior to the foundation of BSR (June 1991-May 1992) versus the twelve month period following (July 1992-June 1993) we should find an increase in articles that focus on CSR in the second time period.

My data show that eighty-two articles focused on corporate social responsibility in the first time period while seventy-nine articles appeared in the time period following BSR establishment. This data suggest that incorporation of BSR – a professional association dedicated to social responsibility – did not have a major impact on media discourse. It is unclear whether the establishment of BSR actually spurred an increase in business activity and discussion of CSR. Scholars often critique organizational responses to CSR as mere “window dressing”. Organizations, for example, say they are socially responsible (and publish this in organizational materials) without actually changing corporate policies (Aguilera et al. 2007). Perhaps the foundation of Businesses for Social Responsibility did little to change actual organizational practices but instead was purely symbolic. Media attention, therefore, may not have increased in response.

**Hypothesis 1B: Discourse related to CSR will show an increase in emphasis on governance and compliance issues in the period surrounding the Sarbanes Oxley Act of 2002. Other themes should decrease in prominence.**

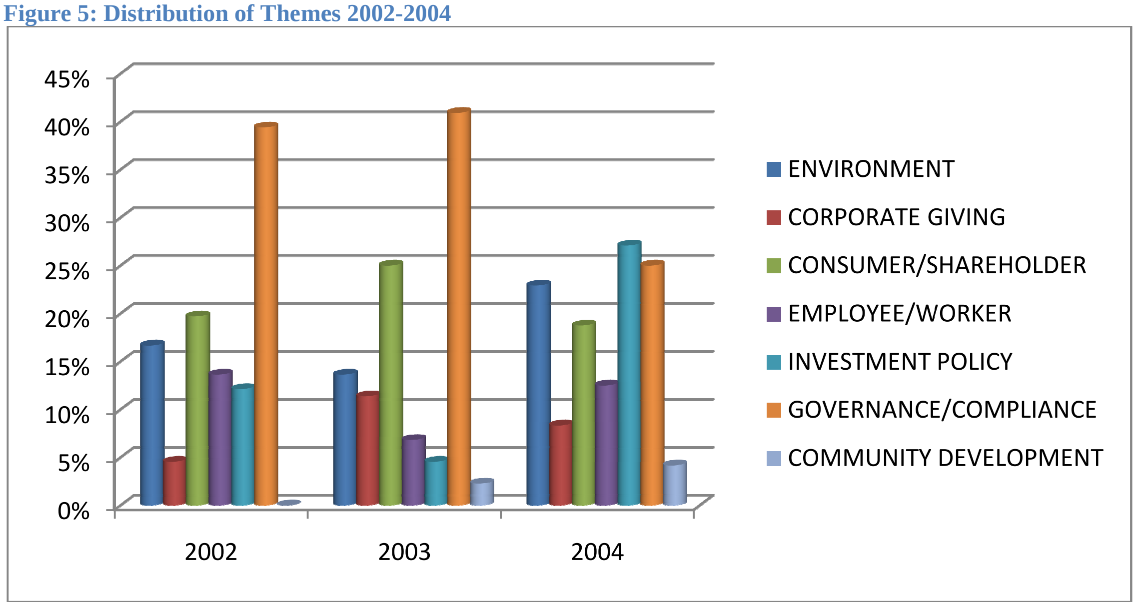
In order to analyze whether discourse was impacted by the passage of the Sarbanes-Oxley act of 2002, as hypothesis 1B suggested, I analyze a five year snapshot. Figure four shows how the seven prominent themes were distributed in newspaper articles referencing corporate social responsibility in 2000 and 2001.

Figure 4: Distribution of Themes 2000-2001




Several themes dominate this time period including the environment, corporate giving, and consumer/ shareholder rights. Governance and compliance issues are mentioned in a minority of articles – seven percent of articles for each year. By looking next at a snapshot of 2002-2004 in Figure 5 we see a substantial shift in theme distribution.

Figure 5: Distribution of Themes 2002-2004




For 2002 and 2003 especially, the governance and compliance theme explodes onto the scene. This theme was minor player in all previous years mentioned in under ten percent of articles (*see* Table 4). With the introduction of the Sarbanes-Oxley act discourse on governance and compliance surges making up 39% of the discourse in 2002 and 41% of the discourse in 2003. Furthermore, all the other themes in the discourse decrease their prominence except for the environment which maintains a 17% stake in the discourse. The second main theme, consumer and shareholder rights, does not decline as significantly but it co-occurs with the governance/compliance theme in 48% of the articles in 2002 and 2003. This signifies that "consumer and shareholder rights" theme overlaps the theme of "governance/compliance". These data show support for hypothesis 1B: Discourse related to CSR shows an increase in emphasis on governance and compliance issues in the period surrounding the Sarbanes-Oxley Act of 2002.

The Sarbanes-Oxley Act represents an expansive coercive pressure that is introduced in 2002. The Act included extensive regulatory standards for organizations in reaction to major accounting scandals. The Act outlined new regulations that addressed corporate accounting, disclosure, and board oversight (Ball 2009). As my data suggest, introduction of this Act shifted the focus of corporate social responsibility discourse. Articles about CSR now discussed issues of compliance and governance instead of other CSR themes that had been predominant. The definition of what CSR entailed was altered by the coercive pressure.

**Hypothesis 1C: Following the publication of the GE Citizenship Report CSR discourse will increase.**

A final indicator that homogenizing forces are at work in business discourse is proposed by my last hypothesis on institutional isomorphism. Mimetic isomorphism suggests that the actions of powerful or successful industry leaders will attract attention of other organizations and bring focus to the topic of corporate social responsibility in business discourse.  The General Electric Citizenship Report of May 17, 2005 should garner attention to issues of corporate social responsibility including discussion over whether other companies follow suit.

In order to test this hypothesis I examined CSR discourse in the twelve month period before and after the May report.  The first time period (May 2004 - April 2005) forty-five articles focused on corporate social responsibility, there was only an increase of six articles (N=51) in the second time period (June 2005 – May 2006).  A closer look at the qualitative nature of the articles does reveal a greater attention to socially responsible *reports.*  This attention, however, comes over a year after GE’s initiative. A September 2006 article in the *Wall Street Journal*, for example, suggests that General Electric may have been too early in the reporting movement to impact the practices of other firms.  The article revealed results of a study that showed that “[m]ore large companies are aligning disclosures related to their social-responsibility practices with a set of international guidelines.” Steve Lippman, a management scholar, explained that companies are slow to adopt CSR reporting practices because “[t]here's a little bit of a case of 'follow the leader' here. Companies don't want to be really out front or really behind” (Boessenkool 2006, B6).

My second hypothesis investigates how competing logics alter the narrative of corporate social responsibility.  To test this hypothesis I first needed to identify a time when the concept of corporate social responsibility was being contested.  One such time occurred in late November 2006.  Three articles came out within a week that questioned the validity of corporate social responsibility.  On November 24, 2006 the *Wall Street*

*Journal* published an Op-ed by Henry G. Manne titled "Milton Friedman Was Right". Mr. Manne reopened the debate by highlighting strengths and weaknesses of Friedman's original argument. A few days later *Forbes* published a commentary by Betsy Atkins, then CEO of Baja Ventures. Her discussion questioned the validity of organizations applying their assets to "social" endeavors. Then on December 1, 2006 the *Wall Street Journal* published a response to Mann's as Professor of Business William C. Frederick lent his opinion and critique of corporate social responsibility by asking "Do corporations have an inherent social responsibility". These three articles signify a contested time in the discourse surrounding CSR.

In order to test hypothesis two I looked at the six month period prior to the contestation (May 1, 2006-October 31, 2006) and the six month period following the contestation (December 1, 2006-May 31, 2007). My first hypothesis predicts that following the contested time discourse on CSR should increase in the business press.

**Hypothesis 2: Following a contested time in CSR discourse the overall prominence of the discourse will increase.**

In the six month period prior to the contestation (May 1, 2006-October 31, 2006) twenty-six articles were published that discussed corporate social responsibility. In the six month period following the contestation (December 1, 2006-May 31, 2007) almost twice that many, forty-one articles, were published in the discourse surrounding CSR. Another way to look at prominence in the discourse of CSR is to look at the average word count of these articles. Hypothesis two predicts that the articles in the second six-month time period would also increase in size. The data do not support this preposition;

as the average word count was practically the same for the two time periods: 1187 vs. 1180.

Front page placement is another way to investigate whether the prominence of CSR discourse increased between the two time periods. Clayman and Reisner (1998) stress the importance of front place placement of articles in garnering greater attention and exposure to a publication's readership. If we look at the first six month time period only two articles appeared on the "front page" of their respective newspaper section, one on page B1 and one on page C1. Jumping to the second time period four articles appeared on the front page of a section all on page B1. In addition, by looking at articles in the first section of the newspaper the *Wall Street Journal*, we find that in the first time period only seventeen percent of the articles on CSR appeared in the first section of the *Wall Street Journal.* In the second six month period fifty percent of articles published in the *Journal* on CSR appeared in the first section.[6]

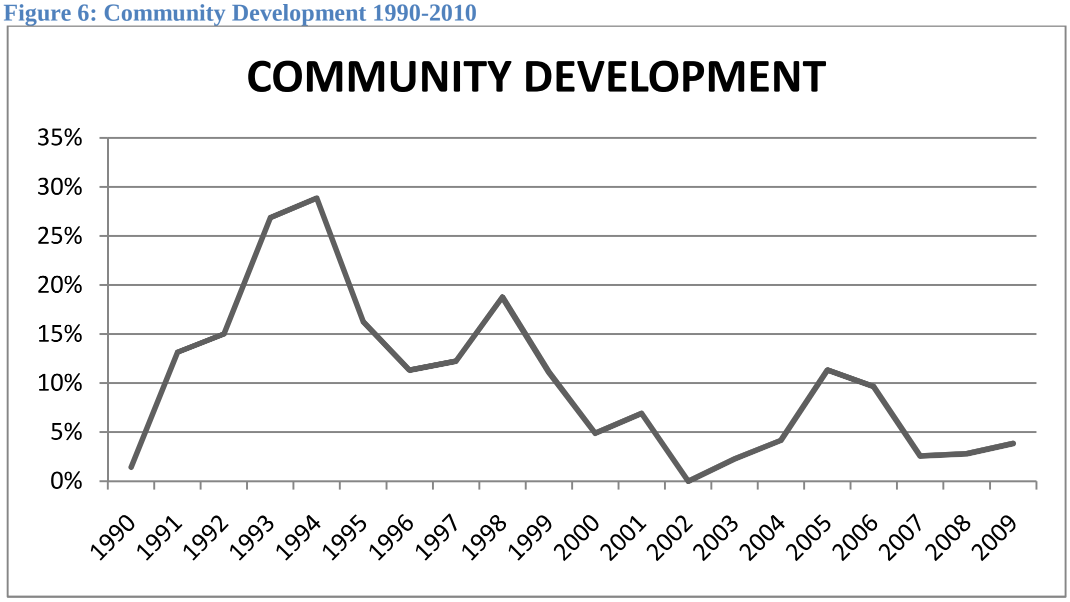
**Hypothesis 3A: A decline in the discourse surrounding CSR – times of silence – following a peak in the discourse – a contested time – will represent the deinstitutionalization of corporate social responsibility in American industry.**

Hypothesis 3A suggests that if a theme is focused on and subsequently drops out of the discourse (a time of silence) this represents a deinstitutionalization of the theme in the discourse. Analysis of the theme "community development" reveals an example of this pattern. If we look at the prevalence of the "community development" theme over

[6] I also tested a second hypothesis based on Swidler (1986) and Ghaziani and Ventresca's (2006) arguments on the nature of the discourse following contested times. Swidler predicts that discourse will become *less* diverse following a contested time while Ghaziani and Ventresca argue the discourse will become *more* diverse (while at the same time both predict increased prominence. My hypothesis regarding this in either direction was not supported, there was very little difference in the nature of the discourse before and after the contested time.

time, for example, we will see that focus on community development as a main theme of corporate social responsibility peaked in 1993 representing 29% of the discourse. In later years, however, its prominence declined and it never regained its status. In fact in 2007-2009 it represented a mere 3-4% of the entire discourse.

**Figure 6: Community Development 1990-2010**




This pattern suggests that while community development was once seen as an integral part of a corporation's responsibility, this particular "responsibility" has lost its importance over time. Below I have highlighted two early examples of articles that focused on community development:

> Now, companies are helping to rebuild entire neighborhoods in partnership with communities, instead of trying to impose their own solutions. Good public relations is only one factor driving such efforts. Companies such as Pathmark Stores Inc. and J.P. Morgan & Co.'s community development arm are targeting inner cities as profit centers and rebuilding communities at the same time. (*Business Week*, 9/26/1994)

> The National League of Cities recently issued a study of 78 metropolitan areas showing a strong relationship between the economic fortunes of

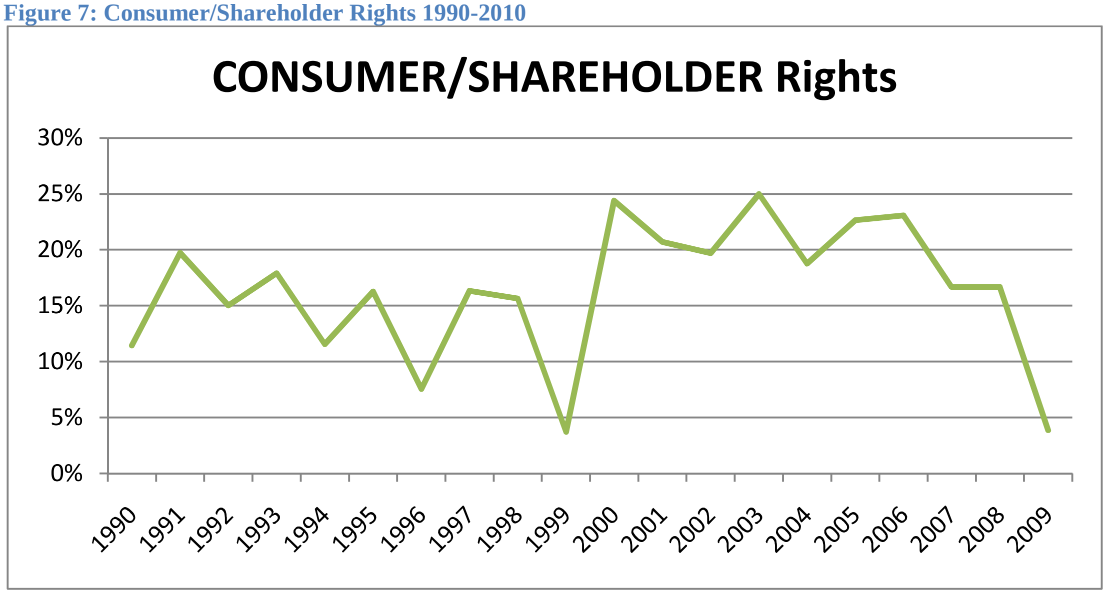
> inner cities and their surrounding suburbs. The plight of inner cities is also costly to society as a whole as welfare, food stamps, and other programs cost about $75 billion annually. Hope is being engendered by a range of promising new community development programs. Most important, underlying the majority of these new programs is the conviction that no amount of government or private money will make much of a difference unless the people who now live in blighted areas take the lead in revitalizing neighborhoods. Atlanta, Georgia, is the center of the most ambitious urban-renewal program: The Atlanta Project. Conceived by former President Jimmy Carter, the program focuses on 20 poverty clusters throughout the metropolitan area. One unique aspect of the plan is that each cluster has been assigned a local corporate sponsor. Marriott, Coca-Cola, and BellSouth have agreed to put up money and assign a high-level executive to work with community leaders (*Fortune*, 9/6/1993)

Further analysis may reveal that community development is no longer seen as a responsibility of a corporation, but has been entrusted to the government and its initiatives.

**Hypothesis 3B: A decline in the discourse surrounding a particular CSR theme – time of silence – following a peak in the discourse – a contested time – will represent the taken For grantedness, or reinstitutionalization of that aspect of CSR.**

Hypothesis 3B suggests an alternate explanation when looking at times of silence. This hypothesis suggests that periods of contestation (heightened discourse on the theme) followed by declines in the discourse signify that the theme has become taken-for-granted and no longer needs to be debated. In CSR discourse, the “consumer/shareholder rights” theme may fit this pattern. Starting in 2000 the theme of “consumer/shareholder rights” was present in nearly one out of four articles. In 2009, however, consumer and shareholder rights plummeted to being present in a mere 4% of the articles on corporate social responsibility.

Figure 7: Consumer/Shareholder Rights 1990-2010




This drastic decline is more likely to represent a “fatigue” in the discourse, rather than delegitimation of the theme. I suggest that in order to differentiate between “deinstitutionalization” and “taken-for-grantedness” we should take into account the slope of the decline. Sharp declines following extended periods of contestation may represent fatigue or oversaturation in the discourse while the theme remains an accepted part of the overall concept.

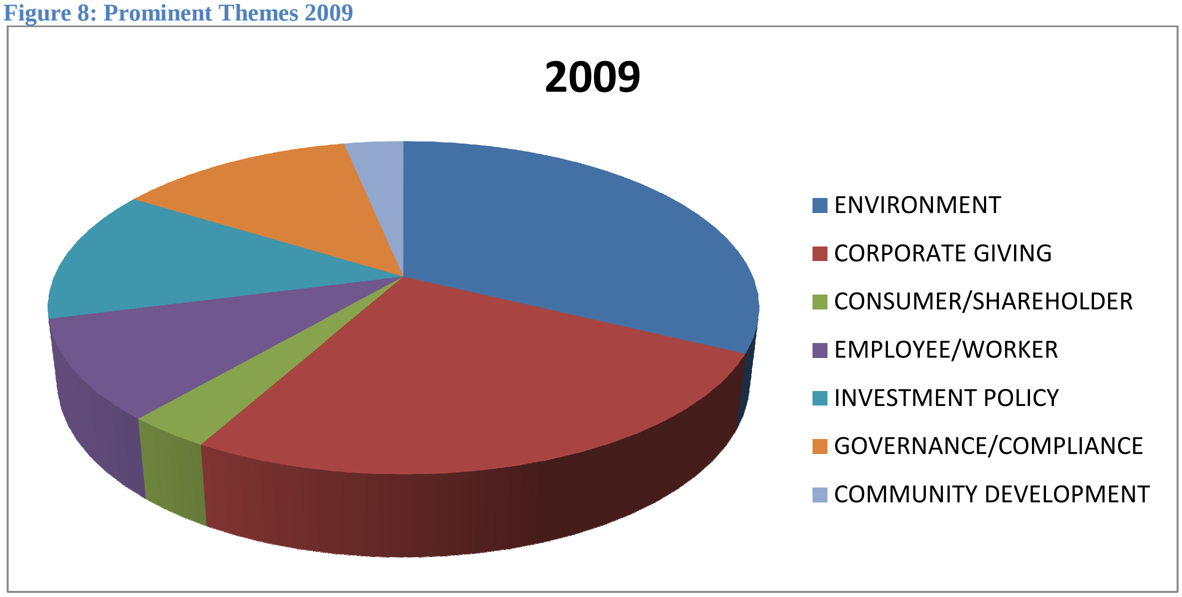
## CONCLUSION

My analysis provides empirical support for institutional theories of cultural change. Institutional theory suggests that institutionalization is a dynamic process that can include homogenization of the discourse, contestation over key thematic tenets, and periods of deinstitutionalization and reinstitutionalization. My data reveal that these fluctuations occur in the discourse surrounding corporate social responsibility. Silence in the discourse surrounding CSR could indicate either deinstitutionalization or the increasing taken-for-grantedness of the concept.

Corporate social responsibility is a term that represents many different categories of meaning. My analysis reveals that three processes of institutional change impacted the nature of the discourse from 1990 to 2010. Seven main themes persist between 1990 and 2000: the environment (25%), corporate giving (19%), consumer/shareholder rights (17%), employee/worker benefits (13%), investment policy (12%), governance/compliance (12%), and community development (10%). These themes peak and wane as processes of homogenization, contestation, and deinstitutionalization change the nature of the discourse surrounding what it means to be a socially responsible business.

### *The Institutionalized Context and Its Impact on Mutual Fund Firms*

**Figure 8: Prominent Themes 2009**



The discourse on corporate social responsibility found in prominent business journals reflects the social context within which American corporations are embedded and can provide corporations with a way to understand and make sense of their world (Ghaziani and Ventresca 2005; *see, e.g.* Granovetter 1985). As a result, the meaning making reflected through this discourse should provide organizations with normative models for how they use the concept of CSR within their particular organization. In 2009, the themes of the environment and corporate giving rise to the top while other themes such as community development and consumer/shareholder rights declined in discourse. Prominent themes like these or historical debates may be used by individual organizations in order to legitimize the organizational practices they pursue. I will address the organizational adaptation and adoption of these models in chapters two and three.

Having established the thematic patterns that institute corporate social responsibility I will turn to my next research question: How do the institutionalized norms of CSR manifest themselves among mutual fund managers? I will build on the evidence accumulated in this first chapter on the general nature of the discourse on corporate social responsibility and focus now on the specific ways these cultural manifestations impact the mutual fund industry. In doing so, I will address the second part of my overarching research question: What is the institutionalized context within which *mutual fund managers adopt and adapt* CSR practices to benefit their particular organizations?

## CHAPTER II: CSR as a Homogenizing Force in the Mutual Fund Industry

"[C] orporate social responsibility doesn't really have a beginning or end point.
There are any number of issues that anyone can focus on.
There are some key issues that everyone should focus on . . .
but there are an infinite number of things that you can do to be a better corporate citizen."

-- Phillip Ledesma, *Deerfield Capital*

Organizational scholars have long been concerned with two contradictory narratives, how organizations come to look alike by adopting shared practices (neoinstitutionalists), and how organizations differentiate themselves by fostering unique practices and identities (organizational culture theorists) (Pedersen and Dobbin 2006; Martin 2002; Dobbin et al. 1993). Using the case of adoption of corporate social responsibility practices by mutual fund firms I reconcile these ostensibly opposing narratives to reveal how organizations can *both* "create legitimacy by adopting recognizable forms and create identity by touting their uniqueness" (Pedersen and Dobbin 2006: 898). In this chapter I look at the ways that organizations adopt similar practices related to corporate social responsibility in order to be seen as legitimate in their field. In the following chapter I analyze how organizational actors foster unique identities by enacting practices that reflect specific organizational cultures.

The American mutual fund industry operates within a well-defined organizational field. According to neoinstitutional organizational scholars, an organizational field consists of "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services and products" (DiMaggio and Powell 1983: 148). By studying organizations using a field level conception neoinstitutionalists investigate the broader social context within which organizations find themselves (McAdam and Scott 2005; DiMaggio and Powell 1991; Meyer 1977; Scott 2001). Previous research has highlighted how, at the aggregate level, institutions infiltrate and influence organizational policies (Kelly and Dobbin 1999), structures (Baron, Dobbin and Jennings 1986; Scott et al. 2000), forms (Dobbin and Dowd 2000; Fligstein 1985; Navis and Glynn 2010) and logics (McAdam and Scott 2005; Scott et al. 2000). In this chapter, I use a field level analysis to trace the complex ways in which institutions infiltrate and influence specific mutual funds

Mutual funds in the United States represent an organizational field that operates as part of the larger social structure of American business. This field can be analyzed to better understand the processes through which organizations interpret institutional norms like corporate social responsibility. Institutional norms are generally accepted prescriptions for behavior that become taken-for-granted and are sanctioned and rewarded (Parsons 1990). These norms and prescriptions for behavior are shared in interactions between organizations in the mutual fund field including competitive relationships, political alliances, interlocking directorates, economic coalitions, and informal social and professional networks. These diverse relationships serve to solidify and reinforce the mutual fund field. We can, therefore, investigate the ways in which organizations within the field react to broader institutional norms in order to understand field level processes.

As part of the broader American business community, the mutual fund field operates within its sociohistorical context (*see, e.g.* Putnam Rankin Chapter One). As I illustrated in Chapter One, the business discourse on corporate social responsibility has become widespread reflecting the normative nature of CSR in general business discourse. In particular, themes of the environment, corporate giving, consumer/shareholder rights, employee/worker benefits, investment policy, governance/compliance, and community development dominated articles on corporate social responsibility from 1990 to 2010. The mutual fund industry, made up of literate business leaders, is immersed in this broader structure and, as such, should be susceptible to the norms that dictate appropriate behavior for corporate social responsibility articulated in the business press. In the next two chapters I investigate how institutionalized norms related to CSR infiltrate specific mutual fund organizations. In particular, I analyze the ways in which institutional norms are understood at the organizational level and the ways in which organizations incorporate them into practice. This analysis helps me to question how the institutionalized pressures of corporate social responsibility manifest themselves within specific organizations in the mutual fund field.

In this chapter I ask: How do the institutionalized norms of corporate social responsibility manifest themselves among mutual fund managers? In order to understand the pressures of institutionalized norms on an organizational field I investigate three tendencies of organizations to adopt homogenous practices: first by seeking institutional legitimacy, second through adoption of institutional myths and natural economic laws and finally through isomorphic pressures. While the previous chapter focused on the institutional context of corporate social responsibility in business discourse this chapter evaluates how its normative standards impact specific organizations in the mutual fund field.

## LITERATURE REVIEW: Institutional Homogeneity

Organizational theorists differ in the extent to which they believe that institutionalized norms constrain organizations and create isomorphic tendencies. In this chapter I review the evidence to support homogeneity and analyze how norm adoption can lead to homogeneous adoption of CSR practice. In the next chapter, I investigate the ways in which scholars predict that norm adoption will lead to diversity in organizational practice. Scholars argue that the institutional structure within which organizational actors are embedded serves to constrain organizations in critical ways leading to homogeneity within organizational fields. As organizations throughout the field adopt common institutional norms the field comes to look alike and be prone to homogeneity. There are three main processes through which field homogeneity takes place: through processes of legitimation, reaction to institutionalized myths and response to isomorphic pressures.

### *Institutional Homogeneity: Institutional Legitimacy*

Tolbert and Zucker (1983) argue that once institutional norms, like corporate social responsibility, become widely recognized within the broader organizational field, organizations are "under considerable pressure to incorporate these elements into their formal structure in order to maintain legitimacy" (26). They argue that organizations are seen as legitimate the more they adopt and enact institutional norms that are valued at the field level (*see, e.g.* Deephouse 1996; Ruef and Scott 1998). According to Suchman:

> Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within *some* socially constructed system of norms, values, beliefs, and definitions (emphasis mine; 1995: 574)

By incorporating institutionalized norms into their firm, organizations can gain legitimacy within their field, thereby increasing their resources, their potential for survival, and avoidance of unwanted outside scrutiny that may be detrimental to the firm (Deephouse 1996; Meyer and Rowan 1977). In this chapter I use legitimacy to refer to "institutional" legitimacy as pressures to conform come from the taken-for-granted nature of norms at the field level. In the next chapter I will address "stakeholder" legitimacy which refers to the pressures to conform from moral stakeholders to the firm. Both definitions of legitimacy are the same, only the location of the "socially constructed system of norms, values, beliefs, and definitions" are different. Institutional legitimacy deals with norms from the institutional context, stakeholder legitimacy deals with norms coming from specific organizational stakeholders.

Mutual fund organizations are likely feel the pressures to conform and be seen as legitimate in their particular organizational field - especially when the broader business field is rife with discourse regarding corporate social responsibility (*see* Putnam Rankin Chapter One). In order to understand the pressure of institutional legitimacy and its relationship to institutionalized norms I first must establish whether or not organizations incorporate the institutionalized norm of CSR and, furthermore, whether they do so in order to be seen as legitimate within their field.

| |
|---|
| **Sensitizing Question 1**: How do organizations in the mutual fund field react to the general institutional norm of corporate social responsibility in business discourse? |
| **Sensitizing Question 2**: Do mutual fund organizations incorporate or oppose the institutional norm of corporate social responsibility in order to be seen as legitimate in their field? |

In order for organizations to survive and be competitive within their organizational field they first must be recognized as a legitimate business enterprise by the public, other peer organizations, and political powers. The more organizations conform to institutional norms, the more likely they are to obtain rewards that improve their chances of survival within the organizational field (Deephouse 1996; Johnson, Dowd, and Ridgeway 2006; Baum and Oliver 1992). These rewards can include greater status (Scott and Meyer 1991, Singh, Tucker and House 1986) enhanced access to resources (Aldrich and Auster 1986; Pfeffer and Salancik 1978), and legitimacy (Deephouse 1996). The resources, social status, and legitimacy that come with the incorporation of institutional norms increase an organization's chances for survival and success within the field (Baum and Oliver 1992).

Institutional legitimacy within the mutual fund industry comes, in part, from an organization's ability to align its values with broader societal values (Weber 1922; Meyer and Rowan 1991 [1977]; Deephouse 1996; Ruef and Scott 1998; Baum and Oliver 1992). According to Ruef and Scott (1998) an organization's legitimacy depends on their "consistency or congruence with cultural models or rules specifying appropriate structures or procedures" (878). A legitimate organization, therefore, is one whose values and actions reflect socially desirable values, norms, and prescriptions for behavior (Suchman 1995:574; Deephouse 1996).

***Institutional Homogeneity: Institutional Myths***

Institutional scholars often argue that institutional norms, like the notion of corporate social responsibility, limit the alternatives for acceptable practices leaving organizations with few choices in how to act. Organizations are often pressured to adopt institutionalized norms because they are seen as optimal ways of running a business. Meyer and Rowan (1991) argue that these norms often become institutionalized myths that are believed to be successful, even when their effectiveness is not necessarily proven.

Organizations, for example, all adopt similar management structures (CEO, President, CFO) because it is seen as the most effective way of running a business. Little empirical evidence, however, supports this claim. Instead, organizations tend to adopt institutionalized myths the more they see others in the industry doing so.

In efforts to attain institutional legitimacy organizations may ceremonially adopt these institutional myths without fully understanding their organizational benefit (Fligstein 1985; Meyer and Rowan 1977). These myths, then, can achieve rule-like status and spread throughout the field because they are seen as successful (Meyer and Rowan 1991 [1977]: 44). This often leads to homogeneity within organizational field in terms of organizational structure and practice because organizations that incorporate institutional myths into practice maximize their legitimacy.

Early institutional scholars argued that deviation from these institutional norms is often difficult to pursue because, once institutionalized, they tend to be inertial and difficult to change (Meyer and Rowan 1991 [1977]; DiMaggio and Powell 1991). In terms of corporate social responsibility practices, these theorists would expect that organizations would adopt similar practices in response to normative pressures. Additionally, mutual fund organizations may adopt these practices ceremonially without actually changing the structure of their organization or adding new practices.

| |
|---|
| **Sensitizing Question 3:** In what ways is CSR adopted as an institutional myth ceremonially by mutual fund firms? |

One source of institutionalized myths is found in “natural” economic laws. Organizational practices often become incorporated, justified, and reified by organizational actors who believe the solution to be the optimal choice. Dowd and Dobbin (1997) suggest that organizational actors often explain their adoption of institutionalized strategies, like CSR, in terms of “natural economic laws” like efficiency, self-interest, or optimality. McKinley, Zhou and Rust (2000) similarly argue that organizations often reify – or make natural – organizational phenomena. Their study of downsizing showed that adoption of a “downsizing is effective” schema was reified and spread across several different industries.

Organizations legitimate their actions based on a belief that their decisions are “good” and “effective” (McKinley, Zhou and Rust 2000). Organizational actors may justify their participation in corporate social responsibility by referring to “natural” economic laws as a means of legitimating their actions. In reality, these references to “natural” economic laws are often made only in retrospect without real consideration of the alternatives (Dowd and Dobbin 1997). In the railroad industry, for example, when pooling became the new management paradigm railroaders quickly eschewed it as the optimal choice arguing that their industry was “naturally cooperative”. This “natural cooperation” was later called into question when the same railroaders concluded their industry was “naturally competitive” (Dowd and Dobbin 1997: 487-488).

Johnston (2005) discusses how fiduciary duty has become a natural economic law in American business embedded in notions of loyalty and trust. The “fiduciary duty” paradigm has become a primary organizational motive replacing previous claims to maximizing the bottom line. Mutual funds justify diverse behavior then, under the presupposition that they are performing their fiduciary duty. By evoking rationalizations tied to fiduciary duty, organizations can claim that they are not self motivated, but are striving to be loyal and to make money for their shareholders (Johnston 2005). Fiduciary duty has become a natural economic law that is reified by organizational actors.

Practicing corporate social responsibility could be seen as part of an organization's *fiduciary duty* under the unsubstantiated belief that it leads to a heightened public image, leads to potential investors, and serves the best interests of existing shareholders.

> **Sensitizing Question 4:** In what ways are natural economic laws such as fiduciary duty interpreted and used by mutual fund actors in their discussion of CSR?

***Institutional Homogeneity: Isomorphic Pressures***

Another way to understand the process through which institutional norms are communicated to the entire field institutional creating homogeneity is through the isomorphic pressures that facilitate the spread of these norms. DiMaggio and Powell (1991) use the concept of isomorphism to explain the process through which organizations incorporate institutionalized norms into their structure in order to achieve institutional legitimacy. They assert that there are three mechanisms that influence the adoption of isomorphic models: (1) coercive isomorphism, (2) mimetic isomorphism, and (3) normative isomorphism.

Coercive isomorphism occurs when both formal and informal pressures are imposed on organizations by those in power leading to the adoption of similar norms, practices or structures. Organizations are often forced or coerced to comply with particular organization norms based on these pressures. Kelly and Dobbin (1999) argue that even with the relative weakness of the U.S. State coercive pressures impact organizational policy. Their investigation of the rise in maternity leave policies showed that employers respond to the visibility of new laws in the press and the perceived risk of litigation by incorporating maternity leave policies. In the mutual fund industry, therefore, pressures may not be directly related to laws or court actions, but the attention to these actions as found in the business press (*see*, Putnam Rankin Chapter One).

Some of the specific coercive pressures for the mutual fund field could include attention to government mandates, mutual fund laws, and SEC regulations. The Sarbanes-Oxley Act of 2002, which established extensive legal mandates for corporate social responsibility, for example, could provide standards for acceptable behavior. The previous chapter examined the ways that these coercive pressures impacted business discourse following its implementation. The Sarbanes-Oxley Act of 2002, for example, altered the definition of corporate social responsibility to focus on issues of corporate governance and compliance (*see*, Putnam Rankin, Chapter One). I expect that these coercive pressures will also be used by executives as justifications for CSR behavior.

> **Sensitizing Question 5A**: Do mutual fund executives discuss government regulations or actions in their justification of whether or not they adhere to the norm of corporate social responsibility?

Mimetic isomorphism includes the process under which organizations, when confronted with uncertainty, adopt organizational models that they perceive to be successful. Organizations will copy the model used by organizations that they see as powerful or successful actors in the field. They often do so without knowing whether the adopted model contributes to the success of the organization. In his analysis, Fligstein (1985) supported neoinstitutional theories that propose mimetic isomorphic tendencies. In particular, he found that firms in industries with other firms that had changed to the multi-divisional form at the beginning of the decade were more likely to make the transition to the MDF. This suggests that mimetic isomorphism was a key factor in homogenization of organizational forms.

**Sensitizing Question 5B:** How does the success of other firms act as a model for mutual fund organizations when they justify whether or not they adhere to the norm of corporate social responsibility?

In the mutual fund industry we would expect mutual fund companies to feel the pressure to adopt corporate social responsibility practices when they see powerful industry leaders, like the largest mutual fund groups (e.g. Vanguard, Fidelity), doing so. The previous chapter identified mimetic pressures as a weak indicator of changes in the normative nature of corporate social responsibility in business discourse. Mimetic pressures, however, may be more salient for individual organizations acting in the well-defined field of the mutual fund industry. I expect that the actions of other firms in relation to corporate social responsibility will impact the behaviors of other firms in the industry.

**Sensitizing Question 5C**: What impact do industry trade associations, social movement, and activist references have on discussions of corporate social responsibility by mutual fund executives?

Finally, normative isomorphism includes pressures from those within a field that have recognized credentials or expertise. These actors can include professional or industry associations that provide standards of behavior for the industry (DiMaggio and Powell 1991; Baum and Oliver 1991; Scott et al. 2000). Galaskiewicz and Burt (2001) investigated the process of normative isomorphism by looking at the perceptions and evaluations by corporate contribution officers in the Twin Cities. They found that professional networks and professional affiliation were important predictors of contagion in evaluations of non-profit organizations seeking philanthropic support. Their study supported the model of normative isomorphism showing how perceptions and evaluations among a profession converged. Within the mutual fund field professional associations, including the Investment Council Institute, CERES, the Social Investment Forum, and the Investment Adviser Association, provide opportunities for members of the industry to interact, share ideas, and work together to create best practices. These interactions, as well as the high status of the standards set forth by the business associations, create normative standards for behavior.

In the case of CSR practice, normative pressures may also come from social movement organizations or NGOs that serve as powerful normative advocates (Sine and Tolbert 2009). The historical analysis of business publications on CSR from 1990-2010, for example, revealed that articles often cited the impact or presence of normative pressures from NGOs and social movement organizations. Twelve percent of the articles related to corporate social responsibility mentioned the role of NGOs, SMOs, or activists in promoting socially responsible behavior.

The pressures of mimetic, normative, and coercive isomorphism have been well defined at a theoretical level and documented in macro organizational research by institutional scholars (DiMaggio and Powell 1983; Mizruchi and Fein 1999; Putnam Rankin, Chapter One). My analysis will contribute to this research tradition by illuminating the ways in which particular actors are impacted by these pressures at the meso or organizational level. My research provides evidence on the different ways that organizational actors make sense of these isomorphic pressures and whether or not they become salient for them in adopting or opposing a specific institutional norm – corporate social responsibility.

> **Sensitizing Question 5:** How are specific coercive, normative, and mimetic pressures interpreted by organizational actors in their discussions of corporate social responsibility?

## RESEARCH DESIGN AND METHODOLOGY

My research was based on participant-observation conducted at two mutual fund conferences (SRI in the Rockies and the ICI Annual Meeting) and in-depth interviews with business executives knowledgeable on topics of socially responsible programs and practice within twenty-six organizations.

### *Participant-Observation: Conference Attendance*

I attended two mutual fund conferences: SRI in the Rockies and the ICI Annual Meeting. At these conferences I participated in roundtable discussions, seminars, conference presentations, meals, informal conversations and other conference events. The first conference, SRI in the Rockies targeted mutual fund and investment organizations that have socially responsible investments. The second conference, the ICI Annual Meeting was a general meeting of investment companies which included sessions on issues related to CSR. I kept a field notebook during these conferences, recorded seminar presentations, gathered conference materials, and participated in many informal conversations. These data sources were used to inform my interviews, identify interview respondents, and further my analysis of corporate social responsibility in the mutual fund industry.

***Interviews: Sample Selection and Recruitment***

Through a purposive convenience and snowball sample I identified twenty-six organizations within which to conduct interviews. I recruited organizations that had a socially responsible investment product (SRI), those that did not (non-SRI), and organizations that had both types of mutual funds (MIXED). The organizations I recruited were large and small and located in different geographic regions across the United States (*see* Table 5).

Table 5: Organization Sample Description[7]

| | NAME | ORGANIZATION | TYPE | AREA |
|---|---|---|---|---|
| **1** | Phillip Ledesma | Deerfield Capital | SRI | East |
| **2** | Ana Bryson | Bella Funds | SRI | East |
| **3** | Jack Shull | V. Thomas Investments | SRI | West |
| **4** | Richard Mabry | Howard & Bolz | SRI | East |
| **5** | Gerald Cassell | Pirapama Funds | SRI | East |
| **6** | Sylvia French | Forest Investments | SRI | East |
| **7** | Ethel Foss | Jeremiah Capital | SRI | East |
| **8** | Charles Gentry | McIntyre Asset Management | SRI | East |
| **9** | Daniel Langham | Cranton | SRI | West |
| **10** | Christine Moye | Russell Group | MIXED | East |
| **11** | Ralph Hale | Lemon Investments | MIXED | East |
| **12** | Tony Whalen | L. Matthews Capital | MIXED | West |
| **13** | Arthur Thompson | Terrace Investment Mgmt. | MIXED | East |
| **14** | Larry Valdez | Bayn Funds | MIXED | East |
| **15** | Denise Koehn | Porter Funds | non-SRI | Central |
| **16** | Martin Weathers | Granmount | non-SRI | Central |
| **17** | Clara Grams | Valiance Asset Management | non-SRI | East |
| **18** | Victor Wiley | Jarvis R. Funds | non-SRI | Central |
| **19** | Bobby Goolsby | Fairhouse Funds | non-SRI | West |
| **20** | Isabel Carpenter | Lynch Grey | non-SRI | Central |
| **21** | Jesse Edelstein | Clayton Funds | non-SRI | East |
| **22** | Stephen Sonnier | Whitehouse Group | non-SRI | West |
| **23** | Caroline Bowser | Bedrock Management | non-SRI | West |
| **24** | James Tarr | Davenport Capital | non-SRI | East |
| **25** | Aaron Tang | Socrates Funds | non-SRI | East |
| **26** | Craig Mizell | IPC Funds | non-SRI | West |

The respondent(s) selected within each organization was the person responsible for, or knowledgeable about, the company's socially responsible practice and included Presidents, CEOs, corporate giving officers, compliance officers, executives of corporate

[7] The names of all my respondents have been changed, as well as the name of the organization to ensure confidentiality of all interview data.

citizenship offices, and other qualified employees. The person(s) was identified after I described my project to the initial contact at the organization. The respondent, therefore, is the organization's representative chosen by the organization to provide me with information on the company's practices regarding CSR. In some cases, I interviewed more than one individual at an organization. I, then, combined the interview data as my unit of analysis is the organization. While this sample is not representative, I believe that this group of mutual fund companies is well suited to provide evidence on the process of adoption and adaptation of institutionalized norms. The purpose of qualitative research is not generalizability, but rather, to uncover the patterns of meaning that are relevant to the phenomena being studied.

***Interviews: Conducting the Interview***

Once identified, I set up a semi-structured in-depth interview with each of the respondent's. Each interview was either done over the phone at the respondent's convenience or in person at the respondent's place of employment. The interviews typically lasted between 60 and 90 minutes. All interviews were audio taped and transcribed for content analysis as described below. A detailed interview guide was used to direct the interview and to capture common theoretical themes across the sample (*see* Appendix I). While this guide was developed based on my initial review of theoretical concepts and my sensitizing questions, it was also revised when I conducted two pilot interviews and the initial interviews for my study. Semi-structured in-depth interviews provided the ideal research tool for this study as I explored the process through which organizations incorporate, adapt, or reject institutionalized norms. This information requires in-depth analysis of complex situations and narratives from an organizational perspective. For this reason, a survey tool or historical content analysis could not adequately capture the nuances and thematic trends that arose.

### *Interview Analysis*

Each interview, once transcribed, was imported into MAXQDA, a qualitative data analysis software program. This software is a useful tool with which to organize the data into thematic patterns, sort the themes into particular categories, and run preliminary analysis on the intersections and connections between these patterns. Using the software as an aid, I thematically coded each interview for segments associated with my outcomes of interest and explanatory factors. This part of my research was based on deductive inquiry from the aforementioned theoretical concepts and sensitizing questions (Miles and Huberman 1994: 155). My coding system is found in Appendix II.

I also took an inductive approach by searching for new patterns that arose in the data in order to allow themes to emerge that were not identified in the current literature (Miles and Huberman 1994: 155). The approach of working both deductively and inductively is an important way to question and build upon the current body of theoretical discourse.

## VARIABLES AND MEASUREMENT

### *Outcomes of Interest*

In this chapter I am interested in the variation in organizational interpretation and practices in terms of corporate social responsibility. I investigated whether or not mutual fund organizations adopt the institutionalized norm of corporate social responsibility. I asked respondents: In what ways do you consider your firm to be socially responsible?

And: Can you tell me a little bit about your approach to social responsibility? I coded segments of this response to understand how the organization incorporated social responsibility.

Next, I analyzed the actual practices or policies that organizations enact within their organization that relate to corporate social responsibility. I coded segments of text that referred to specific practices the firm undertook in relation to corporate social responsibility in their responses to the above questions. In addition, I asked respondents: Does your firm participate in activities related to CSR? And: Does your firm have policies that fall under CSR?

***Explanatory Factors***

There are many explanatory factors that may impact the extent to which organizations implement homogenous CSR practices. I identify several of these factors here, with the understanding that others may become evident during my research. First, I am interested in the degree to which organizational actors discuss legitimacy as a factor in their explanation of their firm's CSR policies. I asked my interview respondents: "Within the investment industry what do you think it means to be socially responsible?" and "What does a socially responsible investment company look like?" I coded segments of these responses for definitions of corporate social responsibility. In addition, I coded other segments of the interview where respondents provided "definitions" of the concept.

In addition, the research has shown that organizations often use "natural economic laws" to legitimize their actions. I will investigate the extent to which natural laws impact discourse surrounding CSR practice within the mutual fund field. I coded segments of the responses that referred to “efficiency”, “natural”, “rational” or “fiduciary duty”.

In order to capture evidence of isomorphic pressures I asked respondents to discuss the role of “government”, “other organizations”, “NGOs” or “activists” and “the industry” or “trade associations” on their CSR practices. I coded segments of these responses that indicated these factors impacted their firm’s view or behavior toward CSR.

## RESEARCH FINDINGS AND DISCUSSION

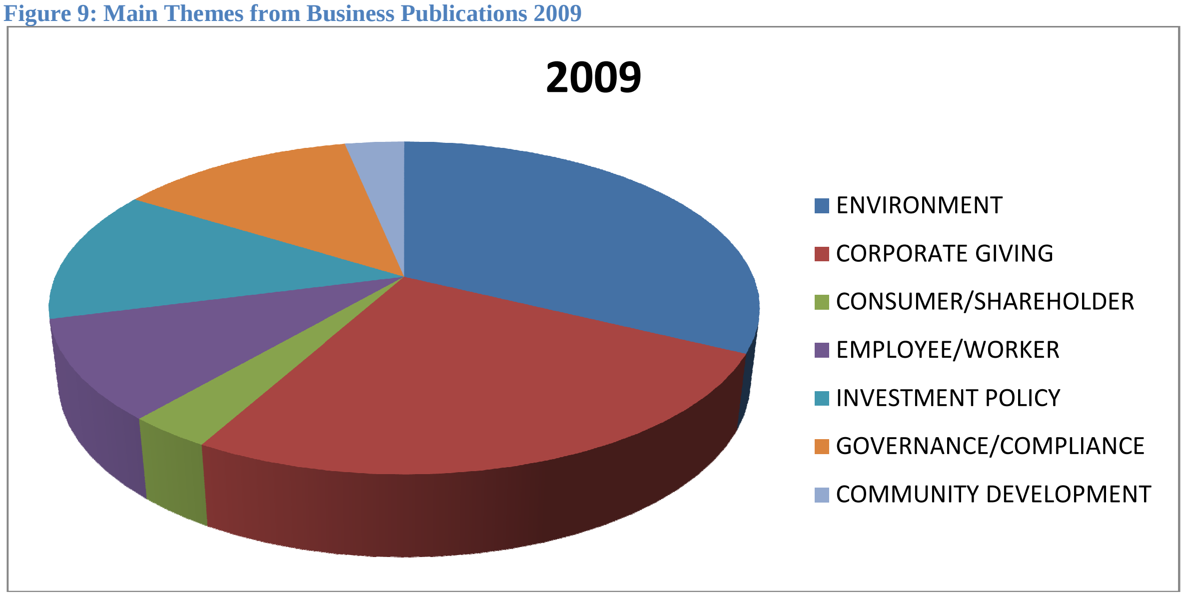
**Sensitizing Question 1**: How do organizations in the mutual fund field react to the general institutional norm of corporate social responsibility in business discourse?

As I began the research process I was warned not to assume that everyone I encountered would be supportive of corporate social responsibility. My initial research on the background of corporate social responsibility revealed that there was an active debate over the validity of the concept (*see, e.g.* Atkins 2006; Friedman 1970, Karnani 2010). Many academic scholars, mainly with economic backgrounds, argued that corporate social responsibility was a misnomer and that its associated practices should not be embraced by business. In addition, several of the informal conversations I had with people outside the mutual fund industry expressed doubt over whether my study would reveal that corporate social responsibility was important to firms. In response to my first sensitizing question, therefore, I was prepared to encounter diverse reactions both in support of and against corporate social responsibility.

I was surprised then, when *all* of the people I spoke to throughout the research process, at the two industry conferences, in formal interviews, and informal discussions recognized corporate social responsibility as a societal value that was expected to be upheld in the mutual fund industry. Some people even tried to direct me to people they believed would reject the norm of corporate social responsibility. When I connected with the "anti-CSR" people they admitted that their company may not be typically seen as socially responsible. They were eager to point out ways in which their firm did, in fact, incorporate elements of social responsibility.

At the business association conferences I attended, sessions on corporate social responsibility were embedded in the agendas signaling the importance and acceptance of CSR by the industry. Sessions at both SRI in the Rockies and the Investment Council Institute Annual Meeting were devoted to the thematic issues related to CSR identified in Chapter One: the environment, corporate giving, consumer/shareholder rights, employee/worker benefits, investment policy, governance/compliance, and community development. In particular, if we look at the most recent snapshot of thematic trends from 2009 (*see* Figure 1) we can analyze how conference events reflected the normative nature of CSR discourse.

**Figure 9: Main Themes from Business Publications 2009**



In particular, at the ICI meeting, with attendees from all types of mutual fund companies, themes of compliance and governance were prominent. In his opening address to the conference, Chairman Mark Fetting urged the mutual fund industry to "bring the highest standards of fiduciary responsibility and ethical behavior. Each of our firms approaches doing the right thing for their investors in their own way." One session, in particular, focused on the imperative of business ethics and going beyond compliance to always "do the right thing". The session "Business Ethics: A Survival Guide for Tough Times" was led by Jack Marshall, President and Founder of ProEthics. He urged companies to focus not only on the bottom line, but also on being trustworthy, respectful, responsible for one's actions, fair, caring, and good citizens.

While the focus of the conference "SRI in the Rockies" was on social investing in particular, general themes of social responsibility were also prominent. Environmental responsibility, the most prominent theme in business discourse, was a main topic of the conference. Several sessions addressed "green" issues including: "Getting Green Done", "An Outlook on Climate Change", "LEEDing the Green Revolution", "Green-Collar Jobs" and "Why the Smart Money is Going Green".

These conferences illustrated how the concept of corporate social responsibility has become embedded in the mutual fund field as a normative standard in both general investment circles and social investment circles. At the same time, the conferences focused on different aspects of CSR. At the general ICI membership meeting discussions of social responsibility related to governance and compliance were dominant while the SRI in the Rockies conference focused on social investing, in general, and environmental responsibility in particular. One interesting phenomena is that corporate giving – a very prominent theme in the discourse – was minimally discussed, if at all. I believe this represents the taken-for-grantedness of corporate giving as part of CSR practice. In my interviews respondents often brushed over their involvement in corporate giving as something they had always done. My conversations suggest that corporate giving is completely integrated as part of CSR.

> **Sensitizing Question 2**: Do mutual fund organizations incorporate or oppose the institutional norm of corporate social responsibility in order to be seen as legitimate in their field?

Institutional scholars suggest that concerns over legitimacy are the driving force in the organizational adoption of institutional norms (Johnson, Dowd, and Ridgeway 2006; DiMaggio and Powell 1983; Meyer and Rowan 1977). Organizations may, however, also be concerned with pragmatic, rather than normative concerns. Organizations may reject CSR as they focus, instead, on economic success, political power, or public image. When asked: "Within the investment industry what do you think it means to be socially responsible?" respondents could reject the norm of corporate social responsibility or say that "organizational responsibility" contributes to the bottom line. Legitimacy, or concerns about the normative or taken-for-granted aspects of CSR may not be prevalent.

As we turn to specific mutual fund companies, the data overwhelmingly highlight the normative nature of CSR as felt by specific mutual funds. It was clear through their interview responses that specific executives believed corporate social responsibility to be an understood, socially acceptable prescription for behavior. In fact, all twenty-six respondents identified corporate social responsibility as norm that they valued and to which their firm, to some extent, adhered. Corporate social responsibility was both expressed as grounded in the values of their established organizational culture and as an external pressure to conform to societal norms. Below are some typical responses I received when I asked: “Within the investment industry what do you think it means to be socially responsible?” and “What does a socially responsible investment company look like?”

> Ethel Foss, *Jeremiah Capital*: “I think socially responsible as a company means . . . the fundamental is we’re here because we care about the environment; we care about human rights labor issues, corporate governance issues; we care about this. We want the best for all business. We want to have everyone be transparent, have everyone be accountable for what they do.”
>
> Craig Mizell, *IPC Funds*: “I think of [corporate social responsibility] in terms of what we are doing for our employees and our culture.”
>
> Martin Weathers, *Granmount*: “One is what do you do about the whole, about issues related to social investing, in your portfolios. And then the second issue would be corporate social responsibility – what does your company do in the way of, helping, either through direct corporate philanthropy or through supporting the philanthropic efforts of your, employees, what do you do to make the world a better place and share your blessings and things like that.”
>
> Caroline Bowser, *Bedrock Management*: “that’s what I think of as, as being a good corporate citizen, being proactive in that arena both in the environmental and the social space.”
>
> Gerald Cassell, *Pirapama Funds*: “[We see social responsibility ] as a combination of, of screening, being a socially responsible fund affects the way that we screen investments that we purchase . . . It affects the way we vote our proxy votes, and it causes us to invest part of our fund in community investments.”

What is interesting about these responses is most executives made their definition of corporate social responsibility relate to what they as a firm were doing. Almost all the respondents I spoke to redirected my question about the "socially responsible investment company" to a personal standpoint – they gave examples of how their firm exemplified social responsibility. Organizations interpreted corporate social responsibility in ways that fit existing organizational practices. They often discussed their established practices as exemplars of social responsibility. Gerald Cassell, for example, highlights his firm's internal practices and how they are socially responsible. Instead of defining social responsibility in new ways or talking about the fictious "socially responsible" company respondents, again and again, redirected the question to *their* firm's activities. These responses highlight the ways that mutual fund firms overwhelmingly buy into and incorporate the general norm of corporate social responsibility into practice. They make their responses personal because they believe that it is a part of their firm culture.

The definitions executives provided for CSR also reflected the common themes that are present in business discourse. Executives defined CSR by citing environmental responsibility, responsibility to employees, good governance practice, social investing, participating in community investment, and corporate giving. If we look more closely at the main focus of the company's socially responsible practice we find that convergence takes place in relation to the actual themes that respondents talked about as falling under the umbrella of corporate social responsibility (*see* Table 3).

Table 6: Main Action Areas

| | |
|---|---|
| Shareholder rights | 9/26 = 35% |
| Investment policy | 8/26  = 31% |
| Governance | 7/26 = 27% |
| Corporate giving | 6/26 = 23% |
| Employee Rights | 6/26 = 23% |
| Environment | 5/26 = 19% |

The respondent's practices dramatically parallel the institutional context as established in my historical narrative (*see* Putnam Rankin, Chapter One. Of the seven main themes that dominated business discourse between 1990-2010 only one theme is minimally discussed here: community development. It was cited as a main action area by only one firm in my study. If we look back at the institutional context in the last three years before my study community development had declined to only have a 3-4% prevalence in articles about corporate social responsibility. Only two themes presented themselves outside of our main themes from the historical analysis of business publications in Chapter One. These new themes were engagement and advocacy – voiced by two organizations, and volunteerism – voiced by one organization. Respondents' understandings of CSR reflect the norms found in business discourse. This supports institutional theories of homogenization of meaning across organizational fields.

**Sensitizing Question 3:** In what ways is CSR adopted as an institutional myth ceremonially by mutual fund firms?

Institutional scholars have highlighted the ways in which organizational practices are adopted and justified as forms of institutional myths (Meyer and Rowan 1977). These myths gain rule-like status and are adopted across the organizational field. Institutional theorists argue that organizational actors rarely engage in rationalized decision making. The responses could reveal however, that when incorporating CSR companies weigh its costs and benefits before deciding whether to implement practices. Based on institutional theory I would expect organizations not to engage in cost benefit analyses. In addition, organizations may adopt CSR ceremonially without changing practices or adopting new policies. I analyzed my interview responses to understand whether executives in the mutual fund industry employ institutional myths when talking about corporate social responsibility.

My analysis highlights two factors that support the argument that organizations adopt CSR as an institutional myth. First, there was a dearth of responses that claimed that companies engaged in a cost benefit analysis when incorporating practices of corporate social responsibility into their firm. Only two respondents mentioned an example of when their firm engaged in a rationalized decision making process when they adopted CSR. The responses below by Ralph Hale and Ana Bryson were the only segments of text that referred to rationalized decision making processes that took place in regard to CSR policy. Ralph Hale justified his firm's involvement in environmental practices as partly due to the fact that its impact could be quantified:

> Ralph Hale, *Lemon Investments*: There's been a lot of talk about how it's easier to quantify, some environmental performance metrics . . . whereas it's more difficult on the social side to get some of those harder metrics. I don't think that's the only reason [we focus on environmental issues]. You know, materiality plays some role for sure, but kind of regardless even if something isn't material, if it's harming the environment then, uh, we don't want that, you know, operation or practice or policy to stay in place.

Ana Bryson of *Bella Funds* discussed the rational economic analyis that took place when her firm wanted to incorporate a new socially responsible investment product into the firm's offerings:

> Ana Bryson, *Bella Funds*: The marketing and salespeople wanted [this type of fund], yet we couldn't get the portfolio construction. I wanted . . . ideally a new funds strategy that will allow us to find a way to acknowledge these [different] kinds of companies. So that's, that's what happened, and the key strategic decision – there were two key strategic decisions that we made that balanced our brand and continuing desire, the desire to maintain our brand leadership of traditional CSR marketplace with the desire to reach out to new investors.

A second pattern I found in the data also support institutional theories regarding institutional myths. Meyer and Rowan (1977) argue that institutional myths are often adopted ceremonially by organizations. Corporate social responsibility was frequently incorporated by the firm as part of a reframing of age-old established practices rather than any new adoption of policies. Very few "new" programs came about in response to the "adoption" of corporate social responsibility. Only five out of the twenty-six firms I interviewed talked about new practices, initiatives, or positions that the firm had recently developed in response to the demands of corporate social responsibility. Two firms, for example, hired new corporate social responsibility officers within the past five years. Another firm was founded to engage in socially responsible investing.

Other firms, instead of adopting new CSR policies, relabeled existing practices as being "socially responsible". Jack Schull, of *V. Thomas Investments,* for example, discussed how his firm's long history of accountability to its shareholders represented corporate social responsibility:

> Jack Schull: *V. Thomas Investments* has a long history of work on corporate governance which is sort of a related idea [to corporate social responsibility] . . . making sure that the company's management and board is accountable to [our] shareholders. . . .[T]hat comes out of a number of things . . . and in some sense the best way that we can try to influence investment returns is to make the companies better companies.

Martin Weathers talked about corporate social responsibility in terms of what *Granmount* had always been doing. He said, "the really big picture is we think the business we're in and the way we conduct ourselves within that business are a manifestation of social responsibility."

These responses suggest that CSR may be ceremonially adopted by mutual fund firms. I am not suggesting, however, that these firms are not acting in socially responsible ways. Most of the firms I interviewed I would consider socially responsible. What this suggests is that the formal concept of corporate social responsibility is often understood only in retrospect. Many of these firms have a long history of exemplary benevolent, ethical, and loyal practices. Their incorporation of corporate social responsibility, however, has often been an explicit reframing of these practices. James Tarr explained *Davenport Capital*'s history of responsible behavior:

> We have, I think, a really long track record of wanting to be a good corporate citizen . . . it means a few different things to us, we have been very active, with a [non-profit] organization [in our area] and we have a campaign that we participate in as a company every year where we encourage but do not require our employees to give to [that organization] . . . . We have a very active employee volunteer program . . . and [there] is a meaningful amount of money that we give as a firm [in philanthropic donations].

**Sensitizing Question 4:** In what ways are natural laws such as fiduciary duty interpreted and used by mutual fund actors in their discussion of CSR?

In order to address the impact that natural economic laws have on organizational respondents I analyzed the interview discussions that focused on organizational policy. Based on the content of CSR policy I organized different responses thematically to show patterns of CSR practice in the mutual fund field. This approach is similar to Ely and

Thomas's (2001) designation of practices of cultural diversity in workplaces. They categorized an organization's implementation of cultural diversity in three thematic categories: discrimination and fairness, access and legitimacy, and integration and learning. I organized organizational adoption to CSR in terms of: a response to fiduciary duty, an all encompassing "who we are" framework, or a segmented framework.

| | FIDUCIARY DUTY | SEGMENT OF ORG | WHO WE ARE |
|---|---|---|---|
| NON-SRI (N=12) | 8<br>67% | 2<br>17% | 2<br>17% |
| SRI (N=9) | 3<br>33% | 2<br>22% | 4<br>44% |
| MIXED (N=5) | 3<br>60% | 0<br>0% | 2<br>40% |
| TOTAL (N=26) | 14<br>54% | 4<br>15% | 8<br>31% |

Fifty-four percent of the respondents focused on notions of fiduciary duty when talking about corporate social responsibility. The two examples below illustrate typical responses of how companies justified CSR in terms of natural economic laws:

> Jack Schull, *V. Thomas Investments:* "That was, well, I would say there was some aspect of that in the decision, but the other side of this is, because we are fiduciaries, we have to remember that all the work that we do on social investing has to some way be intended to improve the bottom line, improve our ability to provide security to our participants."

> Larry Valdez, *Bayn Funds:* "I think what we're meant to do as investment advisors is generate the greatest returns for our clients . . . With the investment objectives, good investment results will allow people to express their social responsibility beliefs . . . The first thing you should do is generate the returns for your investors and let them take those hopefully superior results and express their wishes in a very direct way"

In addition, several of the respondents focused on the way that CSR was integrated as a part of the organizational culture based on their nature to do the right thing.

> Craig Mizell, *IPC Funds*: "You know what? We're not [engaging in socially responsible practice] because we're worried about clients, because in this case the clients didn't realize it was happening. And, we're not doing it for the regulators . . . We're doing it because it's the right thing to do."
>
> Victor Wiley, *Jarvis R. Funds*: "It's not a PR thing, and most of what we do, almost all of what we do is behind the scenes purposely . . . . So it's all just part of who we are and we come at this differently."

**Sensitizing Question 5:** How are specific coercive, normative, and mimetic pressures interpreted by organizational actors in their discussions of corporate social responsibility?

Coercive, normative, and mimetic pressures create another source of homogeneity in organizational practices. I analyzed my interviews for the presence of isomorphic pressures. I was interested in the ways that respondents referenced the government, industry associations and NGOs, and other successful organizations in their justifications for corporate social responsibility. I expected that these actors might influence the organizational response to corporate social responsibility. If, in fact, organizations referred to specific isomorphic pressures in their discussion of corporate social responsibility this would provide evidence on the tendency for organizations to act in homogenous ways based on their response to field-level isomorphic pressures. In addition, organizations may cite how specific coercive, normative, or mimetic pressures caused the organization to change its behavior or adopt new practices.

My analysis reveals that isomorphic pressures are strongly felt by organizations in the mutual fund field. Twenty-five out of the twenty-six respondents I interviewed discussed the presences of at least one isomorphic pressure in impacting their practices toward CSR. The table below reveals how different isomorphic pressures were expressed among the respondents.

**Table 7: Isomorphic Pressures**

| | NORMATIVE | MIMETIC | COERCIVE |
|---|---|---|---|
| NON-SRI (N=12) | 10<br>83% | 7<br>58% | 7<br>58% |
| SRI (N=9) | 9<br>100% | 7<br>78% | 5<br>56% |
| MIXED (N=5) | 5<br>100% | 4<br>80% | 3<br>60% |
| TOTAL (N=26) | 24<br>92% | 18<br>69% | 15<br>58% |

Isomorphic pressures were overwhelmingly felt at the organizational level in reference to corporate social responsibility: 92% referenced normative pressures, 69% referenced mimetic pressures, and 58% referenced coercive pressures. In fact, many respondents revealed ways that these isomorphic pressures altered existing policies and practices they had regarding CSR behavior.

**Sensitizing Question 5A**: Do mutual fund executives discuss government regulations or actions in their justification of whether or not they adhere to the norm of corporate social responsibility?

If we look at coercive pressures, for example, *Bedrock Management*, created a new department to handle governance issues in the wake of government mandates.

> Caroline Bowser, *Bedrock Management:* Given the increased focus on proxy voting and corporate governance issues and actively making sure we're voting our shares in the best interests of the shareholders and responding to more questions from clients and the media, et cetera, they thought that it was a good idea to add somebody full-time, and that was me, and then we just added somebody again this year to the team to help manage that process, too. So we've been growing steadily over the past three or four years, uh, in the context of proxy voting.

**Sensitizing Question 5B:** How does the success of other firms act as a model for mutual fund organizations when they justify whether or not they adhere to the norm of corporate social responsibility?

Among SRI firms mimetic pressures were referenced by seventy-eight percent of the respondents. Some firms referenced the ways in which mimetic pressures altered the practices their organization took in terms of CSR. In her interview, for example, Ethel Foss explicitly referenced how *Jeremiah Capital* modeled their general approach to socially responsible investing on the direction another firm had taken. She referred to a paper written by another firm's CEO that impacted *Jeremiah Capital's* investment philosophy.

Other firms talked about the ways that other firms provided a model to which they could aspire. Stephen Sonnier of *Whitehouse Group* talked about the success of another firm in terms of corporate social responsibility. He said:

> I don't know what, what your research has turned up in terms of other firms that are kind of ahead of the curve on this, but [*Crocus Investments*] is sort of my, like, stretch example out there whenever I am able to hold up that peer example. *Crocus's* got it together and they have for the last several years, so we can aspire to this…in the future with a lot of resources and buy-in.

Mimetic pressures, in Sonnier's view, were not strong enough to create major changes in firm practices. He said, "from my perspective it feels like we're all kind of walking on the line, arms locked, and if one of us can pull our foot a step forward then, then the rest of us can, can leverage that and be able to move a little bit." This response reveals that the success of other firms in the areas of CSR helped, but that progress was still a slow step-by-step process.

**Sensitizing Question 5**C: What impact do industry trade associations, social movements, and "industry" references have on discussions of corporate social responsibility by mutual fund executives?

My data reveal that normative pressures were much more prominent than mimetic and coercive pressures (*see* Table 7). Not only were normative pressures mentioned by 92% of respondents, there were also multiple references to these pressures in the interviews. If we look also at the number of references to isomorphic pressures in the interviews (e.g. the number of times a respondent talked about a specific pressure) we find that normative pressures were talked about in a total of eighty-six coded segments, where mimetic pressures were talked about in forty-six segments, and coercive pressures in thirty two segments. This analysis reveals that in the mutual fund field, normative pressures could be the most influential force in altering corporate behavior.

Normative pressures were felt by executives in their discussion of the mutual fund industry and its professional associations and in comments on how NGOs and activists impacted CSR behavior. When executives discussed the role of the industry or professional associations on CSR practice many referred the industry creating "shared values" or a "shared sense of obligation"**:**

> Victor Wiley, *Jarvis R. Funds*: The ICI is a very important convener . . . we have common areas of interest – assuring that compliance is as good as it can be. There, every single fund company, assuring that governance structure in the funds, which is unique, is as good as it can be at every single fund company because his fund and my fund are subject to the reputational risks of the industry as a whole. I tell you, I think it's unique, and certainly in the financial business, that we have this shared sense of obligation to ensure the integrity of the business, and that's why we end up being cooperative.

In the SRI community executives also expressed these shared values, but they often considered these values to be unique to the SRI industry rather than the entire mutual fund industry. Ethel Foss of *Jeremiah Capital* expressed the sense of community in this way:

> I think it's a sustainable SRI community. . . I think it's definitely shared values [that make us collaborate]. I think it's just all like-minded people coming together and, and when you, when you take away performance, you know, which is what everyone essentially is looking for… the fundamental issue is we're here because we care about the environment; we care about human rights, labor issues, corporate governance issues; we care about this. We want the best for, all business. We want to, you know, have everyone be transparent, have everyone be accountable for what they do, and definitely I think that is a sustainable SRI industry.

Another source of normative pressures was found in the responses about NGOs or social movement activists. In many ways, these responses illustrated the strongest examples where isomorphic pressures altered or introduced new CSR behavior. *Whitehouse Group,* for example, started participating in the Carbon Disclosure Project in response to pressure from environmental activists:

> Stephen Sonnier: the Carbon Disclosure Project is, you know, a huge group of institutional investors coming together to get 4,000 public companies around the world to report on this . . . . [It] sort of puts us in this weird position of [reporting] even though our absolute emissions and relative emissions are quite small. So we put in a huge chunk of time every year to, to, to be a part of the Carbon Disclosure Project because it's a new industry thing

These responses revealed that coercive, mimetic, and normative pressures were important factors in changing the ways that organizations talked about corporate social responsibility and in altering the practices that organizations engaged in. Normative pressures were the most widespread and an analysis of interview responses indicated they were the most likely of the three pressures to lead to organizational change. All these isomorphic pressures are located at the field level and impact organizations in similar ways. Isomorphic pressures in the mutual fund field, therefore, lead organizations to talk about CSR in similar ways and to adopt similar practices.

## CONCLUSION

As established in Chapter One, corporate social responsibility has become a socially mandated norm that is endorsed at the societal level. In order to achieve legitimacy, organizations are expected to align their actions with the norm of CSR by adopting practices that serve the social good. In this chapter I have outlined the ways in which the institutional norm of corporate social responsibility manifested itself at the organizational level. Homogenizing forces including institutional legitimacy, institutional myths, natural economic laws and isomorphic pressures, acted in the mutual fund field to create similar justifications for corporate social responsibility and similar organizational practices. My research provides support for neoinstitutional theories which argue that institutional norms become embedded in our society providing constraints for action. These norms limit the types of acceptable behavior that organizations can pursue. In terms of corporate social responsibility organizations converged in the types of themes they discussed as being a part of corporate responsibility, the ways they justified their participation in CSR, and the specific types of practices they pursued. By adopting shared practices, mutual fund organizations gain legitimacy in the field and are able to enhance their chances of organizational survival and success.

In the next chapter I analyze how the institutional norm of corporate social responsibility can also act as an opportunity for organizations to pursue innovation and unique identities creating diversity. I investigate how organizations tailor CSR practices and justifications to fit their unique organizational cultures. In doing so, I find that they often use references to similarity as found in this chapter to validate their actions while pursing strategies that set them apart within the field and help them to find an organizational niche.

# CHAPTER III: Differentiation in Adoption Of CSR Practice

"[Corporate Social Responsibility] could mean a lot of things, and every organization that decides they want to do this does it in a different way.
I think the main point is to, understand the connection between your fiduciary duty and the broader duty to society as a whole."

-- Arthur Thompson, *Terrace Investment Management*

In the previous chapter, I analyzed the specific ways in which organizations respond homogenizing forces as they incorporate corporate social responsibility practices. In support of neoinstitutional theorists who argue that legitimacy drives sameness, my data describe how organizational leaders focus on similar themes present in business discourse and react to external normative, mimetic, and coercive pressures as they make sense of their actions in relation to CSR. In this chapter, I reveal the ways in which organizations legitimize their cultural decisions by embodying difference as well as similarity. This analysis addresses the final aspect of my research agenda: What is the institutionalized context within which mutual fund managers adopt and adapt CSR practices to fit their unique organizational culture? I investigate – *the fit to organizational culture* – by asking: How does the enactment of CSR practices reflect innovations in organizational culture?

In this chapter I first review the literature on the potential for diversity of practice within organizations. Next, I analyze how organizations can use practices of innovation to manipulate and adapt the pressures of institutional conformity while maintaining legitimacy in their field. Finally, I investigate the dual process of innovation and imitation to show how notions of sameness and difference intersect to promote legitimacy for the organization.

## LITERATURE REVIEW: Cultural Diversity

In the previous chapter I identified how institutional legitimacy, natural economic laws, institutional myths, and isomorphic pressures impact mutual fund organizations by homogenizing the way they define corporate social responsibility and homogenizing CSR practices within the firm. Corporate social responsibility practice in the mutual fund industry may be characterized by a wide degree of differentiation rather than homogenization. Some organizational scholars have highlighted the ways in which institutionalized norms both constrain *and* empower organizational actors (Alexander 1996; Dobbin and Dowd 2007; Oliver 1991). Organizations pursue their own interests while constrained by institutional norms. While institutionalized norms serve as guidelines for action they are not universally imposed on organizational actors leading to field homogeneity (Dobbin et al. 1993; Kelly and Dobbin 1999, Dobbin and Dowd 1997, 2000; Oliver 1991, Alexander 1996). Organizational actors, instead, have the power to innovate to create strategies that incorporate the constraints of the institutional structure while finding inventive solutions that serve as a strategic advantage for their specific firm.

These two chapters reveal how organizations find ways to adopt and *adapt* CSR to best fit their organizational contexts. They adopt similar practices to create institutional legitimacy and enact unique practices to establish organizational identity (Pedersen and Dobbin 2006). There are four main sources of organizational differentiation: innovation and strategic institutionalism, stakeholder legitimacy, geographic specificity and manager values.

### *Organizational Differentiation: Innovation*

Organizational innovation is simply the adoption of a new idea, practice or structure (Hage 1999). Organizational innovation is necessary to remain competitive and can be used as a strategy to achieve differentiation and secure a competitive niche in the field (Bansal & Roth, 2000; Himmelstein, 1997; Hoffman, 1999; Marquis, Glynn and Davis 2009). Organizational scholars stress the ways in which organizations can resist conformity through innovation in the face of institutional pressures (Oliver 1991; Sherer and Lee 2002). Alexander (1996) uses strategic institutionalism to explain the tendency of organizational actors to find innovative ways to manage the conflict between institutionalized pressures and organizational autonomy. She showed how organizational actors, museum curators, were able to maintain their autonomy in the face of external constraints. Powerful funders, for example, put pressures on curators to implement specific types of exhibits which may not have been seen as legitimate forms of art. Museum curators had to strategically adapt their art selection and presentation strategies to preserve artistic legitimacy while satisfying the needs of external funders.

As the previous chapter revealed, institutionalized norms, like CSR, may provide a limited model that constrains the strategies that organizations can take. Organizational actors, in strategic institutional theory, have the ultimate power to shape organizational outcomes through their own innovative strategies while managing these constraints. Strategic institutionalism resonates with population ecology theory which suggests that organizations may use differentiation or specialization as a competitive strategy. These organizations create niche markets in order to survive and secure resources when in competition with larger firms that have the ability to attract broad audiences (Hannan and Freeman 1989). According to strategic institutionalism and population ecology, by specializing in unique products or strategies, firms can attract customers who are focused on similar, specialized values and ideals. Markowicz (2007) suggests that mutual fund entrepreneurs adopt socially responsible investing practices to attract investors who align themselves with the values of the socially responsible firm.

Based on theories that predict organizational differentiation rather than homogeneity, I expect firms to justify their inclusion of CSR practices as innovative or unique policies that situate their organizations as competitively diverse. Innovation of CSR practice may be used by mutual fund firms to create or solidify a niche market position.

> **Sensitizing Question 1:** In what ways do organizations champion their CSR practices as being innovative or unique?

***Organizational Differentiation: Stakeholder Legitimacy***

In the previous chapter I analyzed the ways that institutional legitimacy drives organizations to act in homogenous ways (*see* Putnam Rankin, Chapter Two). Scholars suggest that a different form of legitimacy – stakeholder legitimacy – may lead organizations to create unique identities. Stakeholder legitimacy is distinct from the institutional legitimacy discussed in the previous chapter. Through institutional legitimacy organizations gain status and rewards in the organizational field or industry. Stakeholder legitimacy, on the other hand, is conferred by stakeholders specific to the firm. In order for the organization to be seen as legitimate in the eyes of its stakeholders (versus its peers) the organization must obtain stakeholder legitimacy. Stakeholder or pragmatic legitimacy is based on an "organization's ability to convince stakeholders of the usefulness of its decisions, products, or processes" (Elms and Phillips 2009; 404; Basu and Palazzo 2008; 126; Suchman 1995). Cultural theorists argue that concerns over stakeholder legitimacy can drive organizations to foster unique identities, not only homogenous similarities (Glynn and Abzug, 2002; Pedersen and Dobbin 2006; Marquis, Glynn and Davis 2007; Navis and Glynn, 2011).

Stakeholder legitimacy is driven by organizational responses to their specific stakeholders. In the mutual fund industry these stakeholders could include private investors, institutional investors (e.g. churches, pension funds), mutual fund shareholders, suppliers, employees, social movement activists, and the community. Because each organization has unique stakeholders their expectations and basis on which they give a company legitimacy differ. Instead of institutional norms at the field level creating pressures to homogenize, these theorists argue that organization-level pressures impact individual organizations leading to diverse organizational responses. (see Elms and Phillips 2009: 406). Based on stakeholder legitimacy conferred in discourse with an organization's unique stakeholders we would expect that individual mutual fund organizations would enact diverse practices of corporate social responsibility.

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|---|
| **Sensitizing Question 2:** In what ways do mutual fund organizations use corporate social responsibility to differentiate themselves from the rest of the organizational field and attract or maintain specialized investors? |
| **2A:** How do the demands and wishes of investors, shareholders, and other external stakeholders impact the ways in which organizational actors make sense of corporate social responsibility? |

### *Institutional Differentiation: Geographic Specificity*

Another possible source of differentiation in corporate social responsibility practice may be related to geographic location. Organizational theorists suggest that institutional pressures in terms of corporate social responsibility are geographically specific (Marquis, Glynn, and Davis 2007; Galaskiewicz 1985, 1991, 1997; Galaskiewicz & Burt 1991). Marquis, Glynn, and Davis (2007) investigated the ways in which CSR policies were largely influenced by the community context within which organizations are embedded. They found, for example, that in Atlanta localized normative pressures created a standard for supporting the 1996 Olympics that didn't impact other geographic communities. Geographical differences may exist in terms of CSR in the types of practices that are considered normative. For example, in the Boston mutual fund arena corporate philanthropy may be the main way of supporting the norms of CSR while in the New York area creating socially responsible investment firms may take precedence. In the mutual fund industry we might, therefore, find variations in CSR policy based on localized rather than universal institutional norms.

> **Sensitizing Question 3:** In what ways does the geographic location of the mutual fund impact the particular practices that the organization adopts in terms of corporate social responsibility?

### *Institutional Differentiation: Manager Values*

A final source of potential organizational variance in corporate social responsibility practice is related to the values of specific organizational actors. Some organizational scholars argue that adoption or opposition to institutional norms may, in fact, be directly correlated with the unique values of an organization and its visionary leader (*see, e.g.* Biggart 1989; Glynn and Dowd 2008; Martin, Knopoff, and Beckman 1998; Gunther 2004, Chapter 11). Mary Kay, Inc., Tom's of Maine, and Domini Funds, all exemplify corporate social responsibility and, some would argue, that their actions were spurred by the particular values of their visionary leaders. Other leaders, however, may feel that CSR practices inhibit bottom line goals. These actors may use their personal viewpoint to oppose the incorporate or spread of CSR practice within the firm. I expect that some organizational practices of CSR may be specifically spurred by the founder or key leader's values.

> **Sensitizing Question 4:** How do the values of specific mutual fund leaders impact the organization's unique response to corporate social responsibility?

## RESEARCH DESIGN: METHODS AND DATA

In order to address the ways in which mutual funds differentially adapt the institutionalized norm of corporate social responsibility I drew upon my interview data as described in the previous chapter. My final sample included twenty-six organizations within which I conducted interviews.

### *Outcomes of Interest*

In this chapter I am interested in the diversity of practices organizations pursue in terms of corporate social responsibility. I am interested both in the ways that organizations justify uniqueness or innovation and the examples of uniqueness and innovation that respondents discuss when describing their organizational practices. I investigated whether or not mutual fund organizations adopt the institutionalized norm of corporate social responsibility. I asked respondents: In what ways do you consider your firm to be socially responsible? And: Can you tell me a little bit about your approach to social responsibility?  I coded segments of this response to understand how the organization incorporated social responsibility in diverse ways.

Next, I analyzed the actual practices or policies that organizations enact within their organization that relate to corporate social responsibility.  I coded segments of text that referred to specific practices the firm undertook in relation to corporate social responsibility in their responses to the above questions.  In addition, I asked respondents: Does your firm participate in activities related to CSR? And: Does your firm have policies that fall under CSR?  In particular, I coded whether practices were characterized by innovation, differentiation, or imitation.

***Explanatory Factors***

Research has shown that several factors may lead organizations to adopt diverse practices in response to institutional norms.  These factors include the impact of specific stakeholders, geographic specificity, and visionary leadership.  The reaction of mutual funds executives to the norm of CSR may be impacted by is their relationship to external stakeholders including shareholders, board members, and investors.  My analysis focuses on whether or not organizational actors identify these external stakeholders as an influence in their decision to incorporate specific practices in response to the norm of corporate social responsibility.  I coded segments of the interviews that referred to specific stakeholders, geographic location, community, leadership, and founders.

## RESEARCH FINDINGS AND DISCUSSION

**Sensitizing Question 1:** In what ways do organizations champion their CSR practices as being innovative or unique?

The mutual fund organizations I interviewed often cited ways that their organization was unique, innovative, or a pioneer in terms of their CSR practice. Sixty-nine percent of the total respondents discussed the ways that CSR made their firm unique. In addition, fifty-eight percent of respondents talked about the ways that this uniqueness provided their firm with a competitive advantage or a market niche (see Table 1).

| | UNIQUE/INNOVATIVE | NICHE/COMPETITIVE ADV. |
|---|---|---|
| NON-SRI (N=12) | 4<br>33% | 2<br>17% |
| SRI (N=9) | 9<br>100% | 8<br>89% |
| MIXED (N=5) | 5<br>100% | 5<br>100% |
| TOTAL (N=26) | 18<br>69% | 15<br>58% |

The mutual fund industry is a competitive field where organizations strive to be distinct so they can make claims that they provide clients with a service they couldn't receive elsewhere. In my interviews it was clear that executives often used their specific CSR practices to describe the unique identity of their firm. The data also reveal that Non-SRI and SRI funds respond differently in terms of highlighting their uniqueness in relation to CSR. SRI funds were much more likely to talk about the ways that socially responsible practices made their firm unique and created a competitive advantage. Often, these funds discussed the ways that inclusion of socially responsible investing attracted and retained particular investors.

Christine Moye of the Russell Group, for example, explains how investors in their funds are more likely to stay in economic downturns when they align with the social values the firm upholds:

> "[M]y guess is that the clients that are with us are there in large part because of the social story. We clearly had a lot of investors who came to us in the mid 19, mid and late 1990s because we were among the best . . . of all mutual funds at one point in time. . . . I'm sure that a lot of people came then just because of the performance and I suspect more of those have left than, than the social folks."

An executive at *Lemon Investments*, Ralph Hale, describes the competitive advantage his firm has gained by promoting sustainable solutions:

> [I]f the downturn in the financial markets is a result of business as usual, then let's not play by that game anymore. . . . [S]ome of our marketing literature talks about trying to build a new sustainable economy, and I think that is very appealing to people. I think they, at least a certain subset of people say, "You know, things aren't working so great the way they are. Let's try something new." And to that extent, I think that has been a competitive advantage for us.

| |
|---|
| **Sensitizing Question 2:** In what ways do mutual fund organizations use corporate social responsibility to differentiate themselves from the rest of the organizational field and attract or maintain specialized investors? |
| **2A:** How do the demands and wishes of investors, shareholders, and other external stakeholders impact the ways in which organizational actors make sense of corporate social responsibility? |

In the previous chapter a source of organizational homogeneity for CSR was found in executive responses that signaled struggles for organizational legitimacy. Stakeholder theorists have suggested that another form of legitimacy drives organizations to act in diverse ways. One specific way that organizations may adopt diverse practices in relation to CSR is in response to the specific demands of their stakeholders. Sixty-nine percent of the respondents mentioned the role of clients, shareholders, and external stakeholders in influencing their CSR practices. The organizations often adapted their practices in response to the explicit or implicit demands of their specific stakeholders. In doing so, they used "competitive advantage" or "niche" justifications to legitimize the ways that their organization was different from other organizations in the field. Organizations responded to stakeholder demands and distinguished themselves from other firms based on the needs of their clientele. Jack Schull of *V. Thomas Investments* explained how his firm's CSR practices were more expansive than those of other companies. He tied the cultivation of such practices early on in the CSR movement to the demands from their clients:

> [O]ur particular clientele . . . tends to be more interested and aware of these kinds of issues, so we tend to hear about it more, either because we're doing market surveys or because our investors approach us directly and say, "Hey, you should be involved in this." So, we actually were involved in the South Africa issue, you know, back in the eighties and we got involved by engaging corporations about the issue. And, that was driven I think in part by, participant demand. The, the people were saying, "This is important, and you should focus on it." And we wanted to be responsive.

Bobby Goolsby of *Fairhouse Funds* discussed ways that his firm was altering *current* policies to become more socially responsible in response to the expectations from their investors:

> You know, our investors, expect a certain level of disclosure about these things that we didn't have before . . . . [they] are ever increasing their demands on us, disclosure and discussion of these issues an . . . illustrating for them how we're incorporating environmental and social practices into the investment decision process.

The demands of organizational stakeholders impacted each firm in different ways and at different time periods. Some organizational respondents talked about how clients began inquiring about CSR practice early on in their history while others cited the recent call for social responsibility. Because the demands were different thematically and acted upon in different time periods we would expect CSR practice to have very different components from firm to firm.

> **Sensitizing Question 3:** In what ways does the geographic location of the mutual fund impact the particular practices that the organization adopts in terms of corporate social responsibility?

Organizational theorists suggest that institutional pressures in terms of corporate social responsibility are geographically specific (Marquis, Glynn, and Davis 2007; Galaskiewicz 1985, 1991, 1997; Galaskiewicz & Burt 1991). These studies show how organizations in particular communities act in similar ways. Another source of differentiation in terms of CSR practice, therefore, comes from the specific location of the mutual fund. I would expect that firms in the same locale would impact each other's CSR practice while mutual fund firms that were more isolated might have the freedom to act independently.

Fifteen of the twenty-six firms (58%) talked about the ways in which their embeddedness in their community, region, or city impacted their CSR practices. Firms discussed the ways that their geographic location impacted their degree of interaction with other firms on CSR issues, the focus of their CSR practice (e.g. education vs. environment vs. diversity), the types of values they espoused, and the specific SR companies they invest in. While geographic region was a salient issue for some firms, these firms cited few examples of how their geographic location impacted CSR practice. Of the fifteen firms that discussed geography there were twenty-one total examples of the ways in which geography impacted organizational policy. Each firm that cited geography, did so on average of 1.4 times. There were twenty-one coded segments for geographic differentiation among the fifteen respondents.

Furthermore, geographic *proximity* to other firms was not a salient issue for my respondents. Most respondents referred to the general impact of the industry but not the local sources of influence.

**Sensitizing Question 4:** How do the values of specific mutual fund leaders impact the organization's unique response to corporate social responsibility?

The values of specific mutual fund leaders were a final source of diversity in CSR practice My analysis revealed that sixty-two percent of respondents cited the ways in which the values of their founder, or prominent executive impacted their practices. The values of mutual fund leaders impacted the firms both at a general level – in having a focus on the social good – and at a specific level – in terms of specific practices that companies pursued. Ethel Foss, of *Jeremiah Capital*, explained the ways that the top executives of her company pushed for a focus on ethical investing: "They truly believe in investing in a company that has strong roots, that is ethical. . . There's no perfect company, but they [look for] a well-rounded company. They take into consideration the people, not just the profit." Similarly, Aaron Tang of *Socrates Management* discussed the way that values at the top level of the organization permeated into CSR behavior:

> Businesses do what they have to do but there is kind of a moral compass of how to treat people and how to operate in the community . . . And it originates because of the people and, when I say the people, I mean it is very easy for the tone of the top of the firm to send a message for what is acceptable behavior and what is not.

Additionally, corporate leaders impacted specific actions that organizations pursued in terms of CSR practice. Martin Weathers of *Granmount* discussed the ways that the values of their CEO and President impacted the types of causes that *Granmount* had supported over the years. He said, “one of the reasons why we have been involved with [financial literacy] is that Alex and Jamie both are very committed to kids knowing about what’s happening from a financial perspective.” Stephen Sonnier of *Whitehouse Group* talked about how the family influence impacted a renewed focus on CSR practices:

> I think it has a lot to do with the, the sort of family influences on the company and the family presence in the company. There’s a real sense of community, and as the company grew very quickly they were starting to feel like that, the fabric of internal community was starting to fray a little bit and wanted to try and make an adjustment. . . in building that up and doing that through community involvement programming.

### ***Discussion: Diversity vs. Homogeneity***

This chapter reveals some of the ways that organizations can exhibit diversity and difference in response to the generalized institutional norm of corporate social responsibility. The previous chapter highlighted the ways in which organizations feel pressures to conform and adopt similar policies in reference to corporate social responsibility. Organizations innovate to create distinct identities and foster policies that may attract specialized investors. In doing so, they may obtain rewards like investor loyalty and favorable public images – stakeholder legitimacy. On the other hand, my analysis reveals that organizations often respond to isomorphic pressures and adopt CSR practices that they see as similar to other organizations. The literature on institutional legitimacy suggests that organizations do this in order for their actions to be seen as valid or legitimate within the mutual fund field. These seemingly opposing narratives are actually parallel processes that organizations pursue in order to be seen as legitimate in the field and among stakeholders.  Organizational responses reveal three distinct patterns: 1) organizations act in homogenous ways when they need the support of institutional legitimacy; 2) organizations innovate to create distinct identities when they seek stakeholder legitimacy to remain competitive; 3) organizations combine innovation with imitation in times where both moral and institutional legitimacy are needed.

The support of other organizations, through industry associations, in particular was salient for almost all of the firms in my study (92%).  These alliances provided safe places for organizations to form "shared meanings and values".  On the other hand, when organizations discussed their relationship to clients, investors, or shareholders, there were much more likely to tout their uniqueness.  Here stakeholder legitimacy to diverse stakeholders became an important organizational motivation.  In order to maintain an advantage in a highly competitive industry, executives need to stake claims to their distinctive traits and benefits.  A final pattern that was prevalent in evaluation of organizational responses to corporate social responsibility was that organizations often combine strategies of homogenization and diversification in order to validate their actions.

## VALIDATION: *Imitation and Innovation*

Organizational responses to the institutionalized norm of corporate social responsibility exemplify a dual process:  1) that organizations pursue strategies that maintain their membership in the group (institutional legitimacy) and, 2) that organizations signal their distinctiveness within that group by appealing to organizational stakeholders (stakeholder legitimacy).  Organizational innovation can be risky.

Organizational innovation can lead to uncertainty, possible failure, and diminished reputation. Organizations, therefore, may avoid being the first mover in any specific activity as a more successful approach is to follow the pioneer (Tellis and Goldner 1996). Organizations try to be innovative, but not too unique.

Ten respondents from my interviews highlighted this paradox. Organizations seem to validate their uniqueness through comparison to other firms. In doing so, they both imitate and innovate CSR practice. One way in which this became apparent was when companies claimed that they looked at what other organizations were doing in order to determine best practice and then claiming that their organization's policy went "above and beyond", was "ahead of the curve", or that they were "the pioneer". Stephen Sonnier of *Whitehouse Group* made this type of comparison. He explained that *Whitehouse* was, "talking with the folks who run the community relations functions at, *Chimney Asset Management*, at *Parker Group*, and at *Clayton Funds*, and none of the three of them have anything close to someone looking at corporate citizenship in a general way as we do." Jesse Edelstein of *Clayton Funds* described their proxy voting behavior as ahead of the curve in the following way:

> I have looked at our competitors' voting records, you know, for years, and the dirty little secret of the mutual fund business is that most shops don't have portfolio managers voting. Most shops have some governance person and the clients or something voting, and they vote for all the funds. So we are one of the very few [that vote in this way]. *Carpenter Funds* is one, and we're one.

In addition, like Edelstein's reference to Carpenter Funds, organizations often claimed similarity to other peer organizations in their innovation. Executives would claim that *they* were the pioneer or innovator "like XYZ firm". Larry Valdez of Bayn Fund provides an example of how respondents justified CSR practice in this way:

> So we're very engaged, probably the most engaged from a large company standpoint. *Murberry* would be close in terms of corporate governance because, you know, the way corporations behave will be dictated by the leadership and the board, and so we're very engaged in that process. . . .We're continually disappointed frankly that, uh, more firms don't take an active role.

The intersection of innovation with imitation suggests that organizations don't want to be seen as too dissimilar or unique in terms of their organizational practices. Many of the organizations I interviewed used the comparison to other firms as a way to signal their inclusion in the group even as they were claiming superior or atypical behavior. Firms may be afraid to be the first mover when adopting new policies that haven't fully been legitimated. They, therefore, compare their pioneering activity to precedence established by other firms.

## CONCLUSION

This chapter examines how mutual fund executives adapt the institutional norm of CSR in diverse ways to strategically reach their organizational goals. Sources of diversity in CSR practice include struggles for competitive advantage, stakeholder legitimacy, geographic location, and specific values espoused by organizational leaders. After highlighting the ways that organizational diversity was exemplified in executive discussions of CSR I next analyzed the intersections of homogeneity and diversity. The patterns I find support theories that expect organizations both act in similar and unique ways (Pedersen and Dobbin 2006. Finally, the data suggest that organizations both try to imitate and innovate in order to achieve legitimacy in the field and achieve a competitive advantage. I argue that institutional legitimacy and stakeholder legitimacy are needed at different times by an organization and their responses to CSR reflect the type of legitimacy they are seeking. My analysis illuminates the complex ways in which mutual fund organizations incorporate and strategically adapt institutionalized pressures.

It is apparent that executives interpret and enact the institutional norm of corporate social responsibility in *typically* diverse ways. Organizations often altered CSR behavior to theoretically give themselves a competitive advantage. Whether or not this competitive advantage is realized is the subject of another inquiry. Organizations operate with many "institutionalized myths" based on implicit assumptions and unrelated to actual performance. The ties of CSR practice to competitive advantage may, therefore, be simply a myth that executives in the field have rationalized as contributing to the bottom line. On the other hand, corporate social responsibility may actually provide mutual funds with the opportunity to create niche markets and attract diverse investors. Executives use CSR practice to display innovative strategies that help to set them apart from the rest of the field while citing similarity that ensures membership in the field.

## CONCLUSION: Research Contributions and Implications for the Industry

Mutual fund organizations rarely invoke rational cost-benefit analyses in their rationale for corporate social responsibility practice. And yet, much of the research on corporate social responsibility has tried to make the connection between social performance and the bottom line (*see, e.g.* Margolis and Walsh 2003; Taneja, Taneja, Gupta 2011). Taneja, Taneja, and Gupta, for example, in their meta-analysis of articles on corporate social responsibility in management between 1970 and 2008 found that in the majority of recent academic articles have focused on the impact of corporate social responsibility on organizational performance and on different ways of measuring corporate social performance (16). Scholars are increasingly interested in the impact of CSR on organizational performance and in the ways to develop comparable measures across organizational fields. My research turns away from this tradition to focus on three other areas of CSR research identified by Taneja, Taneja and Gupta (2011): 1) studies that review the ambiguity and evolution in meanings of CSR; 2) investigations of factors leading to CSR implementation, and, 3) analysis of the CSR practices employed by specific organizations or industries.

Carroll (1999), for example, tackled the first research focus by developing a historical framework for understanding the origins and transitions in the definition of corporate social responsibility. Matthen and Crane (2005), in the same tradition, developed a theoretical framework to examine how "corporate citizenship" might provide a better framework for understanding the role that corporations are currently playing (174). In investigating particular factors that lead to CSR implementation, Campbell (2007) theorized that specific institutional pressures including state regulation, industry self-governance, and monitoring organizations would increase the likelihood that corporations adopt CSR practice. Marquis, Glynn, and Davis (2007) also develop an institutional, theoretical model that proposes that geographical embeddedness will lead to community consensus in terms of corporate social action. Other scholars in the third research tradition have investigated the ways that particular organizations employ CSR practice. These studies frequently analyze one or a few organizations. For example, Rosabeth Moss Kanter's (2010) study highlighted eight multinational corporations (including IBM, Procter & Gamble, Banco Real, and Publicis Groupe) and how they innovatively create both organization and social good.

These diverse research approaches have created a theoretical framework for understanding the intricacies of corporate social responsibility over time, specific factors that may promote or hinder CSR practice, and examples of organizational or industry applications of corporate social action. My research builds on the CSR research tradition by looking at all three of these research agendas from an industry-wide, theoretical, and empirical perspective. The data provide evidence of the historical nature and social context that alters meanings toward corporate social responsibility in business discourse, identify specific factors that may contribute to isomorphism or diversity in the mutual fund field in terms of CSR practice, and empirically test which factors of organizational change are salient in the mutual fund industry.

My research also contributes to institutional and cultural theories of organizational change by investigating the impact of both institutional pressures (*see, e.g.* Campbell 2007; Lee 2011; Pedersen and Dobbin 2006) and cultural innovation on CSR practice (*see, e.g.* Alexander 2006; Marquis, Glynn and Davis 2009). My research suggests that what propels organizations into corporate social action is not a belief its impact on the bottom line. Instead, mutual fund organizations implement CSR policies due to their embeddedness in the social structures of the industry (e.g. professional membership, interaction with key stakeholders, affinity to other firms) and their desire to remain competitively innovative (Alexander 1996; Oliver 1991; Sherer and Lee 2002).

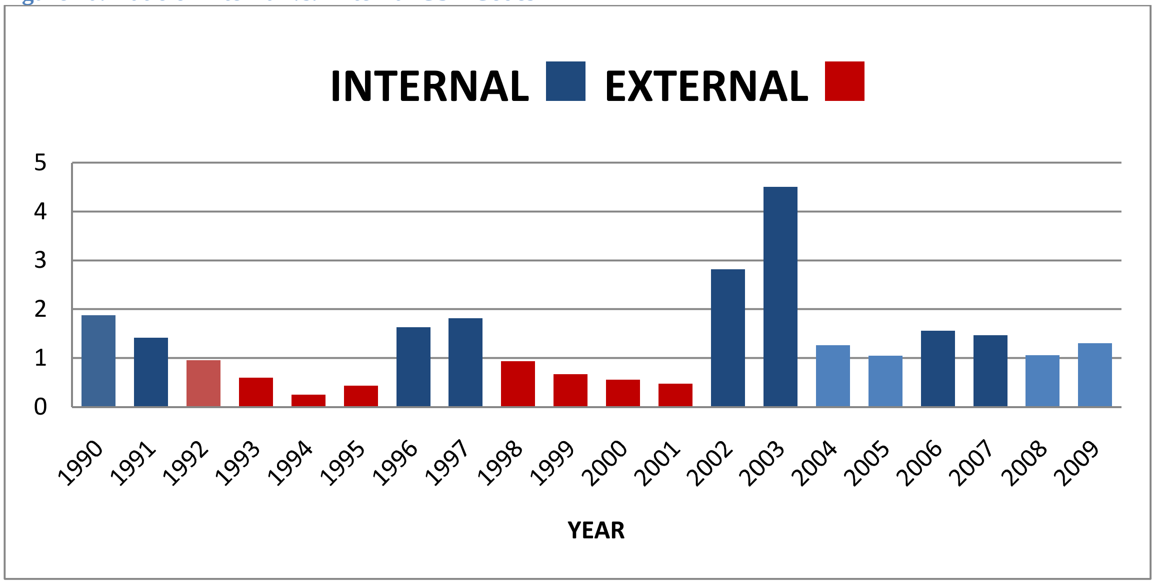
Government regulation is often the initial driver of institutional change followed by the sustaining forces of industry and organizational interactions that solidify and institutionalize specific organizational practices and structures. Institutional scholars have long suggested that government initiatives are key drivers of organizational change (Scott et al. 2000; McAdam and Scott 2005; Fligstein 1987; Dobbin and Dowd 2000). Government action has shaped diverse organizational arenas including professional leadership in the healthcare delivery industry (Scott et al. 2000), the creation of a new organizational form - the multi-divisional form (Davis et al. 1997), and the proliferation of CEOs with a finance background (Fligstein 1987).

Scott et al. (2000) show how the sudden escalation of federal involvement in the healthcare sector created new governance mechanisms which destabilized the dominance of professional interests. In response to growing public demand and interest in the healthcare industry, new agencies and regulations were formed to ensure the quality of healthcare (McAdam and Scott 2005; Scott et al. 2000). Although, the government reduced its influence in the following period between 1983 and 2000, the federal, state, and local governance structures they created remained. My analysis of CSR discourse exemplifies how the government had a similar, perhaps unintended impact, on what it means to be socially responsible. As we look at the government impact on CSR discourse we find that discourse shifted in important ways following the Sarbanes-Oxley Act of 2002.

First, as reported in Chapter One, discourse overwhelmingly became focused on governance and compliance issues in the period surrounding and following the Act's implementation. For the five year period prior to 2002 on average only 4.8% of the articles on CSR talked about governance and compliance issues. For the five year period following the Act's implementation 28.6% of the articles focused on governance and compliance issues. A second way to illustrate the shift in the discourse that took place around 2002 is to analyze what proportion of articles addressed internal versus external CSR practices. Internal practices include treating employees well, being a green organization, having fair employment and compensation policies, complying with industry and government standards, and focusing on shareholder rights. External practices include community involvement, corporate giving, volunteerism, and social investing.

Analysis of CSR discourse reveals how, over time, discourse about CSR shifted from a focus from external practices to internal practices (*see* Figure 11). If we look at the ratio of articles that talked about internal practices versus external practices we find that articles focused on external practices prior to the 2002 Sarbanes-Oxley Act and then, shifted focus to internal practices following its implementation.

Figure 10: Ratio of Internal vs. External CSR Codes




These data suggest that actions by government can be a key driver of changes in what is considered normative for corporate social responsibility practice. The Sarbanes-Oxley Act introduced a new regulatory environment that stressed organizational transparency, oversight, and compliance. These themes became incorporated into CSR discourse and shifted its nature from external to internal responsibilities.

My interview data further reveal that the Sarbanes-Oxley Act of 2002 created only vague guidelines for corporate social responsibility practice. These guidelines did little to alter existing practices, but instead, changed the ways organizations talked about CSR. A focus on internal practices of transparency, business ethics, governance and compliance were suddenly talked about, and understood, as being a part of what it means to be socially responsible. My respondents incorporated these themes in their discussions of CSR.

While government actions may be the initial force in creating a shift in organizational behavior, ties to the industry, inter-organizational connections, and specific organizational responses often create the lasting structures that define which behaviors become institutionalized. My interview data show how organizations overwhelmingly cited examples of normative pressures on CSR adoption and implementation. Ninety-two percent of my interview respondents referenced the importance of the industry or CSR activists as being a factor in their incorporation or implementation of specific CSR practice. Additionally, mimetic pressures, or references to copying another firm's initiatives, were mentioned by sixty-nine percent of the respondents. These normative and mimetic pressures provided constraints on how organizations can act within the industry. As such, my analyses reveal that organizations adopt similar justifications for CSR behavior and, at times, similar practices. This isomorphic tendency allows mutual fund organizations to be seen as legitimate within the industry.

While isomorphic pressures constrain the acceptable strategies mutual funds can pursue in terms of corporate social responsibility, I also found that mutual fund organizations are strategically innovative in their CSR practice. Sixty-nine percent of the organizations I researched championed their CSR practices as being unique or innovative. Furthermore, fifty-eight percent of the organizations cited ways that their CSR practice gave them a competitive advantage or a niche position in the industry. Innovation, or being seen as unique or different from their competitive counterparts, is definitely important for the mutual funds I interviewed.

While the government often provides the initial "shock" or the incentive for organizational change, here a redefinition of what it means to be a socially responsible organization, organizational actors have the ultimate power to shape organizational outcomes through innovative strategies. They must do this while managing normative and mimetic constraints that provide models for appropriate behavior. In the mutual fund industry we find that organizational actors manage conflicting pressures for similarity and difference in order to maintain industry and stakeholder legitimacy.

### *Implications for the Mutual Fund Industry*

I recently observed student presentations on social change at American University. The business students had been asked, for six weeks, to "implement a social change activity, effort or project within any environment or organization of their choice" (Westermann-Behaylo MGMT 209 Syllabus). Two things struck me about these presentations. First, all the students conducted their projects within an organizational setting. No student decided to strike out on their own to create social change. Second, only one student in the course completed their project within a for-profit firm. Overwhelmingly students participated in projects let by the non-profit sector.

The choices these students made in their social change activity reveal that as a society, we believe that organizations are effective in addressing social problems. In addition, we overwhelmingly turn to the non-profit sector, and at times perhaps the government, to address social change. Corporations, however, are extremely powerful vehicles in our society and have the capacity to work for the social good. The mutual fund industry, in particular, manages over eleven *trillion* dollars, has powerful networks, high skill sets, core competencies, and management structures that are ready to jump into action to create social change.

My investigation of corporate social responsibility within the mutual fund industry brings to light three main strengths of its social responsibility potential: 1) organizations have an interest in corporate social responsibility – they *want* to be involved; 2) organizations have the capacities to improve society, and 3) organizations have the networks in place to support CSR initiatives.  The organizations I researched exemplified how it is best to focus on what you know and what you are passionate about. Not all organizations adopted CSR in the same ways; most organizations chose particular activities based on the interests of their leaders, employees, and investors. Some leaders had a passion for education initiatives and so the company created new education programs and partnerships in their community. Other companies focused on the power of their employees and sponsored volunteer drives for local charities. Or, many firms used their skills in investing to create sustainable solutions for investing responsibly. The second strength that the industry has in terms of CSR is they have skill sets, structures, and competencies that can support CSR initiatives. The industry is highly educated and business savvy. Mutual Fund firms can use their diverse skills to support diverse philanthropic initiatives, work with the non-profit and government sector on community building, and create new solutions to social problems.

Finally, the industry has established business networks in place that could facilitate CSR efforts. Overwhelmingly when I asked the respondents if the industry was inherently competitive or cooperative respondents mentioned the collegiality in the industry. Of course, they recognized the competitive nature of the industry in general, however, when you put investment decisions aside mutual fund firms often were more than willing to share best practices and work together. Martin Weathers at *Granmount* expressed how the industry was "all in it together". He said:

> [W]e compete vigorously but at the same time I think everybody realizes that we all sort of hang together or hang separately . . . It doesn't do any of us any good particularly if somebody else's money market fund blows up. It doesn't do us any good if somebody else has a compliance problem in the long run. In the short run maybe we gain some assets, but in the long run it tarnishes the brand of mutual funds and it tarnishes the attractiveness of investing. So we really do feel that at a very fundamental level, we're all in this together, and it's certainly over the long term we're entirely in it together. We have every incentive to help each other out when it comes to compliance and in doing the right thing and promoting sound regulation and all of these other principles that the ICI stands for.

Among the SRI firms especially, this collegiality was used to promote some standards and common practices for social responsibility. Many SRI firms work together on advocacy issues, shareholder resolutions, and environment, social, and governance (ESG) research on public companies that they could invest in. In addition, their conference SRI in the Rockies focused not just on best investment practices, but ways that the industry could work in coalition to create social change. The SRI industry perhaps provides a model that the entire industry could use in trying to enhance their CSR impact.

While the industry has several strengths that put them in place to revolutionize social change, efforts within the industry it has fallen short of its true potential. Two main areas could be strengthened that would maximize the power of the industry in the area of corporate social responsibility. First, firms could formalize their corporate social responsibility practices. Very few firms currently have corporate social responsibility departments or officers. By investing and developing these capacities firms could better analyze the impact that they wanted to make in society and be better executors of that plan.

Second, once firms create corporate social responsibility departments they would have better capability to work together on CSR issues. When I spoke to Stephen Sonnier, one of the few people who worked as a corporate social responsibility officer, he was frustrated by the lack of focus on corporate social responsibility within the industry:

> I will say that the [mutual fund] industry in the U.S. is, I think, holding us back. We're a very peer-aware industry in general, I think. . .So in many ways it's very conservative, nobody wants to, stick their head out and, make a move forward in a way that makes them stand out from the rest of the pack when it comes to [CSR]. That's been a challenge.

Sonnier's comments hearken back to my discussion of innovation and imitation (*see*, Putnam Rankin Chapter Three). In the areas of corporate social responsibility no one wants to be the true pioneer, they want to be able to follow the leader while still being innovative. This could be resolved if the industry did more to work in concert with one another on CSR issues.

The power that one organization has in contributing to the social good could only be multiplied by acting in collaboration with other organizations. If, in fact, the mutual fund industry is interested in improving their practices on corporate social responsibility they could leverage the power they have as individual organizations and work in collaboration with other firms. The Investment Company Institute, as the general industry association, could increase its focus on corporate social responsibility issues beyond its current governance focus. Sessions at their conference could focus on different aspects of corporate social responsibility that companies could sign on to work on together. Firms could also share experiences of when their initiatives were successful and when they failed.

A renewed focus on corporate social responsibility within the investment industry would not only benefit society, but also the industry. The more the industry is seen as socially responsible the better the industry's reputation. According to Victor Wiley of *Jarvis R. Funds*, the "industry is totally dependent on its reputation" for success and longevity. Successful initiatives in the area of corporate social responsibility could restore confidence in the industry. A second reason the industry's focus on CSR could be beneficial is that some feel the industry lags behind its international counterparts and other industries in implementing social standards. As a competitive international industry, U.S. mutual funds could catch up to their international peers by developing CSR strategies. Finally, by working in collaboration the mutual fund industry, together, could become the pioneer to pave the way for new solutions to how for profit firms can transform our society. Business can be very effective in creating innovative ways to approach problems. If the mutual fund industry worked collaboratively to tackle enduring social problems, we might see solutions never before imagined.

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- Can you tell me a little bit about your history with [FIRM]?

- Within the investment industry what do you think it means to be "socially responsible"?
    - In your opinion what does a socially responsible investment company look like?

- In what ways do you consider [FIRM] to be "socially responsible"?
    - Can you tell me a little bit about your approach to CSR?
        - Does your firm participate in activities related to CSR?
        - How long have you had these practices?
        - Does your firm have policies that fall under CSR?
    - Why do you engage in these endeavors?

- Is there any outside pressure to participate in corporate social responsibility?
    - From the government
    - From other mutual funds?

- I've interviewed about 15 firms that have a socially responsible investment product – what is your impression of this investment philosophy?
    - Has [FIRM] ever considered it?
    - Do you see any problems with social screens?
    - Do you think there is a business motive for /against SRI?

- Are you involved with any trade associations or investment councils? (e.g. Investment Company Institute, Social Investment Forum, CERES)
    - What do you see as their role in the industry?

- What role should the government have in promoting social responsibility?

(SEC)

- Do you cooperate or collaborate with other mutual fund firms?
    - In what ways?

- How does being in [LOCATION] impact your relationship with other firms?

## APPENDIX II: CODE SYSTEM

**Code System**

- **CSR PRACTICE**
  - DEFINITION
  - ADOPTION - what is CSR?
    - FIDUCIARY DUTY/COMPLIANCE
    - SUBDIVISION/part of
    - CSR SHIFT IN CULTURE - NEW
    - WHO WE ARE - INTEGRATED
  - EMPLOYEE IMPACT
  - CORP LEADER IMPACT/MANAGER VALUES
  - STAKEHOLDERS IMPACT
  - GEOGRAPHY
  - EXTERNAL
  - INTERNAL
- **LEGITIMACY**
  - PR/IMAGE/PERFORMANCE
  - SIZE - IMPACT
  - TIMING OF ADOPTION
    - LATE
    - EARLY 60-85
  - EFFICIENCY/RATIONAL
- **ORGANIZATIONAL CULTURE**
  - NICHE - COMPETITIVE ADV
  - UNIQUE/innovation
- **NORMATIVE PRESSURE**
  - NGO/MOVEMENT/industry
  - ROLE OF TRADE OR MBA
- **MIMETIC PRESSURE**
  - SUCCESS/MODEL OTHER ORGS
- **COERCIVE PRESSURE**
  - ROLE OF GOVT
- **THEMES**
  - ENVIRONMENT
  - GOVERNANCE
  - SRI
  - GIVING