ARE WE ON THE SAME BOAT? SOCIALLY REPONSIBLE INVESTING, IMPACT INVESTING, AND CATEGORY CO-OPTATION

Categorization is a socially constructed process (Glynn & Navis, 2013; Vergne & Wry, 2014) fraught with contestations. Acknowledging that category is a powerful organizing device that has disciplinary power (Hannan, Pólos, & Carroll, 2007; Hsu, 2006; Zuckerman, 1999), existing studies have well documented how actors contest over framing (Kaplan, 2008), labeling (Zunino, Suarez, & Grodal, 2019), and meaning (Anthony, Nelson, & Tripsas, 2016; Jones, Maoret, Massa, & Svejenova, 2012) of a category and strategically use them in a way that could better serve their own interests (Gehman & Grimes, 2017; Pontikes & Kim, 2017).

However, existing categories research has seldom focused on how power relations are inherent in the construction and maintenance of a market category. We know very little about how powerful actors can change or co-opt the meaning of an existing category and replace it by creating yet another category of their own. To fill this gap, in this paper, I ask: how do powerful actors co-opt the meaning of an existing category to maintain their status quo? I explore this question more in-depth by conducting a historical case study of the emergence of socially responsible investing (SRI) and impact investing in the U.S. financial services industry from 1980 to 2018.

Research Context. Socially Responsible Investing (SRI) is defined as “the process of integrating personal values, societal concerns, and/or institutional mission into investment decision-making (Schueth, 2003)”. More recently, SRI has become immensely popular. According to the US SIF 2018 trend report, 12 trillion dollars or 26% of total assets under professional management in the U.S. are now involved in SRI.

SRI has its roots in religious organizations such as the Religious Society of Friends in 1758 and was more widely adopted by social activists as a movement strategy addressing civil rights, gender equality, and labor issues. It played a critical role in anti-war movements during the Vietnam War and in ending the apartheid government in South Africa. It grew even further with the rise of institutional investors (Davis & Thompson, 1994; Ocasio & Joseph, 2005), and the concept of SRI became more concrete.

There were three core approaches to SRI—screening, shareholder resolution, and community investing (Domini, 2001). Screening refers mostly to negative screening which is when investment firms decide not to invest in particular firms that they think are irresponsible. Religious firms that do not invest in firms producing tobacco, alcohol, and weapons that contradict their religious values is another example of negative screening. Shareholder resolution or shareholder activism is an approach that shareholders can take leveraging their ownership of the corporation and influencing the firm’s behavior by exercising their voting rights on issues such as corporate governance, corporate social responsibility, human rights, and labor relations at annual meetings. Lastly, community investing is a form of SRI that makes direct investments into poor communities through microlending pools, community development banks, credit unions, loan fund, and microfinance institutions. However, SRI still remained somewhat peripheral until the 2007-2008 financial crisis which dramatically changed the perspectives of mainstream investors. After the crisis, investment firms began creating new investment offerings to gain back their trust and legitimacy from their customers that were lost during the disastrous economic and financial crisis by doing the right things (Herzig & Moon, 2013).

In this context, the Rockefeller Foundation and industry leaders in finance, philanthropy, and development created what they call ‘impact investing’ which is greatly resembles community investing approach of SRI. In the paper, I show how this creation of ‘impact investing’ has diluted and co-opted the original meaning of SRI.

Data Collection. My primary data comes from press releases collected via *PR Newswire*. I gathered all the press releases that contain any of the followings: ‘socially responsible investment,’ ‘socially responsible investing,’ ‘impact investment,’ or ‘impact investing’ from 1980 to 2018. Since the purpose of this paper is to see how impact investing diluted the original meaning of SRI, I grouped my sample into three distinct document groups (i.e., SRI Pre-2008, SRI Post-2008, Impact Post-2008). In total, the final sample consists of 1,826 press releases (SRI Pre-2008= 459, SRI Post-2008=446, Impact Post-2008=921).

Data Analysis. In analyzing the data, I follow a novel, three-step methodological approach called the ‘computational grounded theory (Nelson, 2017)’. It is a type of mixed-methods approach that combines computational techniques with grounded theory in a way that minimizes the challenges of each method while leveraging the strengths of both. To carry out a computational grounded theory, researchers can follow three steps—pattern detection, pattern refinement, and pattern confirmation. Pattern detection step involves using unsupervised computational techniques (e.g., difference of proportion analysis, topic modeling) to reduce complicated text into simpler lists of words or topics which can lead to extracting embedded meanings within the text. Pattern refinement step involves a reengagement with the data through a computationally guided deep reading of the text. With the help of computational techniques, this step pulls out most representative texts for any topic of interest and researchers can use their interpretative abilities and engage in deep, qualitative reading of those texts to refine the pattern identified in step 1. Lastly, pattern confirmation involves assessing the validity of the inductively identified patterns by further utilizing computational techniques such as supervised machine learning.

Preliminary Findings. Using the difference of proportion analysis and structural topic modeling, I find that the meanings SRI became much more similar to those of impact investing after the emergence of impact investing in 2008. Among the three core approaches to SRI (i.e., screening, shareholder activism, community investing), screening and shareholder resolution practices which directly conflict with the mainstream investment firms’ conventional investment strategies are discussed less and less. The original meaning of SRI has been diluted or co-opted, and became much narrower and more like impact investing which used to be only a part of SRI in the form of community investing. I discuss how category formation can become a potential mechanism through which incumbents (high-status actors) co-opt and replace an existing category.