A DIALECTICAL APPROACH TO INVESTOR INTERVENTION

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Purpose – The object of contemporary social movement theories impliedly privileges extant institutional processes, presenting a paradox to social movement analysis. How can social movement theories provide insights into political processes of organizational change? We suggest a solution in the form of a dialectical approach.

Design/methodology/approach – We illustrate the dialectical approach with longitudinal case studies of two large European pension schemes. We identify features of institutional processes that form points of incipient organizational change and resistance to change. We map the influence of these points using Laughlin’s (1991) conceptualization of shocks to interpretive schema. Forming a backdrop are European proposals to improve governance of pension schemes.

Findings – Bricolage practices of change agents had crystallized in a professional social movement within, across and outside organizational boundaries. The movement had formed a number of collectivities which sought to articulate intervention practices at institutional levels. The causes of the mobilization were traced to institutional and organizational points of resistance. The influence of regulation on governance processes was negligible.

Practical implications – Mobilization of organizational actors outside organizational archetypes can be stimulated from the points of resistance to change. We suggest that regulatory efforts to improve governance should be directed at a sector-wide level. Awareness of mobilization of organizational actors contributes to attempts of regulators and insiders to improve the governance of messy, complex organizations.

Originality/value – Contemporary manifestations of socially responsible investment are theorized as a set of bricolage practices. We empirically demonstrate conventionally unarticulated relations of investor governance, globalized securities markets and domestic regulation. The paper contributes to the organizational change literature by emphasizing the utility of dialectical analysis to social movement theories, shifting the analytical referent from a set of contextual variables to the site of incipient change. A dialectical perspective to social movement analysis answers the call of Bourdieu (2001) for engaged scholarship.

Keywords – Bricolage, Dialectic, Globalization, Governance, Shareholder activism, Social movement analysis, Socially responsible investment.

Paper type – Theoretical, Case study
A DIALECTICAL APPROACH TO INVESTOR INTERVENTION

The ‘paradigm wars’ of social movement analysis have contested three theoretical groups: social constructionism; a derivant of resource mobilization theory known as political process theory; and so-called new social movement theories. Contemporary expressions of the latter two groups appear especially suited to an analysis of governance change. The main question they address is the conditions under which groups are successful in forming, working against and with powerful outsiders, and the reframing of institutions[1] (Gamson, 1975; Tarrow, 1998, p. 4). Political process theory tries to explain such as social movements in terms of access to political processes and layered, interactive mobilizing structures (Tarrow, 1999). Access to political power requires strategic organization on the part of challengers. The tradition of new social movement theories takes a more sympathetic perspective to the cultural, historical meanings of social movements. Bearing some similarity to the strand of social movement analysis rooted in social constructionism, new social movement theories describe emergent collective action along institutionally embedded processes of identity framing (Gamson, 1992).

Framing is borrowed from the cognitive work of Goffman (1969). In new social movement theories, framing refers to causal and strategic determination of policies shaping the construction of social movements. Identity framing refers to a twinned process of legitimation and illegitimation. The legitimation aspect is achieved by embedding desired change in institutions; illegitimation or antagonist framing is achieved by discrediting the object of desired change and hence its relative hegemony (McAdam et al., 1996, p. 8; Melluci, 1995). The ‘newness’ aspect refers to the diversity of collective protest that, if not replacing the classical Marxist focus on the proletariat class, uncouples protest from exclusively class concepts. New social movement theories, in keeping with the broader Marxist tradition, “cannot be understood apart from the equally new, historically specific, social structures to which they respond” (Buechler, 2000, p. 51). One of their prominent focuses has been tendency to relegate materialist values behind the place of qualitative aspects in social life.

The taking into account of complex dynamics of relations between emergent and established, dominant institutional processes while recognizing that movements can materialize from within organizational forms (Chandler, 2005; Mayer and Roth, 1995) would seem to facilitate progressive critical research. The conservatism of conceptual reliance on extant sets of arrangements would seem offset by the promise of an analytical approach which recognizes the possibility of change. A problem with political process theory and new social movement theories (SMT as a convenient term) is their reification of institutional arrangements; as a consequence, analytical attention is dissipated away from the objectives of social movement organizations. This is of particular concern with the political versions of SMT that draw on neo-Marxist scholarship (Buechler, 2000, p. 48).

The dilemma derives from the chosen level of analysis, an area receiving less critical attention than warranted (Buechler, 2000, p. 38). SMT presents as radical yet commits itself to epistemic orthodoxy (Tinker, 2005) by relying on a presumed objectivity of approach. SMT reaches standoff in taking the conditions of social movement emergence as analytical object: namely, institutional arrangements, including the political. Its power depends on the
agency of contextually related arrays of mediating, exogenized determinants of movement emergence (motivation of actors, repertoires of contestation). Objectifying elite institutional arrangements as the benchmark of change, the paradox is that SMT slips into reification. The objective of social movements to achieve political objects outside institutional structures (Younis, 2000), that is, social change itself, escapes scrutiny in favour of an ahistorical attention brought on extant arrangements (Buechler, 2000, p. 51).

### Instating Praxis to Social Movement Analysis

Institutional theorists have questioned how actors can participate in institutional change if they are products of those institutions. The earlier institutionalist literature emphasized the embedded aspect of organizational action (see, Meyer and Rowan, 1977), leaving little room for the creative power of individualized agency at individual and organizational levels. The more recent institutional literature has showed a converse tendency to privilege the ontological status of the atomized agent (see, Fligstein, 1977; Prevost and Rao, 2000), offering at most partial insights into political conflicts at collective levels (Battilana, 2006). The upshot is that institutional theory can not explain organizational change in terms of the creation and maintenance of institutional processes. This limitation is shared by SMT, at least to the extent that SMT nods to institutional embeddedness.

In an attempt to resolve the embedded-agency dilemma of institutional theory, Seo and Creed (2002) rely on praxis as a mediating mechanism between atomized agency and ‘monolithic’ institution. Praxis, defined as particular practices of collective human action that frame social contradiction as part of the process of achieving social, institutional or organizational change (Tinker, 2005), is composed of the following three components: critical understanding of extant social/institutional/organizational conditions which give rise to calls for change; capacity for mobilization; and political action which guides achievement of desired change (Bernstein, 1971; Friedland and Alford, 1991).

Analytical focus on the sites of the components of praxis affords insight into the motivations and processes of change and brings the researcher into the frame of reference (Tinker, 2005). The utility of praxis for analysis of social movements is the additional insights it gives into processes of change: interrelated but often mutually incompatible institutional arrangements “lead to various tensions and conflicts within and across social systems, which may, under some circumstances, shape consciousness and action” to change those arrangements.

As a result of … tears in the institutional fabric, potential change agents arise, overcome the constraints of institutionalized scripts and logics of action, transcend the limitations of existing institutional arrangements, and mobilize collective action for institutional change (Seo and Creed, 2002).

We aim to complement Seo and Creed’s work by adopting a dialectical perspective to social movement analysis, which we illustrate empirically in two case studies conducted over an eighteen-month period. The history of dialectical analysis as a tool for understanding social movements emerges in studies of post-war consumerism. Marx and Hegel hold that interaction of conflict leads to creation of new interpretive schemes, organizational forms and institutions. Marx’s reconstruction of Hegelian dialectics recognizes that realities are never isolated entities standing in a linear, causal relationship to each other but rather as multi-faceted interaction (Crotty, 1998, p. 118). The origins of social movement analysis
contain a belief that small, temporary differences in the sequences and combinations of events provides conditions of more substantial, durable social change. Dialectical analysis redresses SMT’s overly deterministic analysis of dynamic processes (Buechler, 2000, p. 40) by supplying an enabling technology for the study of social movements at the site of change.

Guattari’s analysis of the social unrest of the late 1960s in North America and Western Europe provide useful insights into the demands of praxis. Seemingly intractable conflicts coming between institutional arrangements embedded in organizations (such are seen as weaknesses of the model, in SMT terms) represent possibility of new understanding:

We should be ready to connect anything that could initiate a new sequence of events: snow-balling sequences [which do not necessarily] mean that there is a total incoherence in this subjectivity, but simply that an effort is being made to perceive something which is not yet registered, inscribed, identified (Guattari, 1996, p. 90).

The utility of praxis in stimulating the reflective moment can be seen, for example, in tensions arising in pension fund governance between mixed allegiances to economic institutions and ultra-market social institutions. Such tensions might stimulate realignment of economic and social objectives in new organizational ways if the source of conflict is identified and analyzed. In this context, bricolage – making change happen by whatever means is at hand – becomes a useful heuristic device for developing causal explanations of processes of organizational change.

Lévi-Strauss defined bricolage as a way to confront a situation of being forced to use the concepts of metaphysics while being also incapable of accepting them: using philosophy to critique itself. A *bricoleur* is an individual who relies on physical, metaphysical or institutional resources to get something done while yet critiquing the limits and adequacy of those resources (Lévi-Strauss, 1974, p. 16). In organizational life, bricolage involves individuals or organizational components disembedding from organizations to re-embed (possibly with actors from other organizations) in new organizational forms, which act variously to further strategic objectives (Clemens, 1996). Recognition of change is achieved by means of manipulation of sets of arrangements which give rise to the desire for change in such a way as to re-align arrangements to the institutions that provide them meaning and legitimation (Snow et al., 1986; Weick, 2001).

Theoretical combination of processes of bricolage and praxis is illustrated in case studies of pressures for governance changes brought on two pension funds located in the Netherlands and United Kingdom. Our paper contributes to the organizational change literature by introducing the dialectic to social movement analysis, shifting the analytical referent from a set of contextual variables to the site of incipient change. Another contribution is theorization of contemporary manifestations of socially responsible investment as a shifting set of variously effective bricolage practices. Moreover, the paper empirically demonstrates conventionally unarticulated relations of governance, investor intervention, globalized securities markets and domestic regulation. Furthermore, adoption of a dialectical analytical perspective enables us to directly participate in efforts to bring about social improvements, answering the call of Bourdieu (2001) for engaged scholarship.

We proceed in four parts. The first establishes the methodological premises and empirical methods. This is followed by a background to pension governance and regulation in the
Netherlands and the UK. A third section presents two cases. A final section reflects on the significance of exogenous regulation and endogenous pressures for organizational governance, and of dialectical analysis for social movement analysis.

Methodology

Spencer-Matthews (2001) has described organizational change as processes and outcomes associated with shared conceptions of organizational values, beliefs and objectives. Pensions governance has been described as the influences on hierarchies and networks of control involved in organizing the generation and distribution of investment revenues (Shleifer and Vishny, 1986). By conflation, governance change in trustee organizations responsible for administering pension schemes can be defined as processes leading to imposed and accepted conceptions of paradigmatic investment processes. Involvement of pensions in nearly all sectors of economies (the universal investor: see Hawley and Williams, 2000) makes definition of governance problematic. Untidy and often divergent networks of investment management contracts, broking alliances, preferred bankers, investment analysts, actuaries, ‘back-house ordering’, custodians, governance and proxy voting services point to the difficulties at defining boundaries of pensions governance – and the difficulties governing boards have with monitoring such networks. Such disparate forms of organization have been referred to as stakeholder business systems (Mitchell et al., 1997).

The institutionalization of investor governance has been analyzed by Roberts et al. (2006). When economic competitiveness becomes the sine qua non of intervention (without the market, activism has no meaning), a desirable conformity of investment processes and portfolios is produced. Legitimacy is gained by displaying a willingness to outperform the market using methods available to all: overriding concern for fiduciary interests (Black and Tolbert, 1994), commercial acumen, performance benchmarked to market indices, and impression management (Kraatz and Zajac, 1996). Social considerations claimed in investment products sit as awkwardly with economic considerations (Haigh, 2006a) as the type of reciprocal, moral accountabilities that their application would require (Roberts, 2001). Effective analysis of the relations of intervention and governance of trustee organizations, therefore, must recognize conflict immanent within systems of organizational governance. The following section describes how this was achieved.

Modelling governance change

This section divides into three sub-sections. The first argues the starting point of analysis and constructs an argument for socially responsible investment as a form of potential governance change. A following section identifies sources of institutional contradiction. A third section identifies points of incipient change and resistance to change in trustee organizations.

Institutional theory recognizes that internal politics can bring difficulty to introduced strategic organizational change (DiMaggio, 1988). Change is often punctuated by central events which act as a tipping point between one institutional logic and the next (Davis et al., 2005). The transfer between resistance to change and change is critical to advancing understanding of governance processes. Our contribution is to use dialectical analysis to model resistance to change as a tipping point for unexpected events. The chosen point of analysis is the commodity form, for two main reasons. One, the theoretical object of the commodity form is one of change; in this case, governance change. For reasons related to
pension fund structure, political processes immanent to governance are multifarious and conflictual. Empirical analyses of processes of governance change are influenced by various competing sources of data, which can lead to dissipation and ultimate reification of the most powerful set of arrangements. This can be rescued by identification of the ‘root metaphor’ common to all these processes. Two, the governance change under consideration concerns portfolio construction, namely, the relative swing between economic and social considerations. A pension fund holds a conflated charter: social welfare is presumed best provided for by a relative focus on the future economic benefits of pensioners (Freshfields, 2004). Inquiries into these relations “cannot proceed in a “chaotic manner” but require a prior theoretical structure” (Tinker, 2005, p. 103). The structure is provided by the vehicle of the capitalism exchange, providing the “concrete specificity of opposites that animate change in the whole” or “unity of differences”, that is to say, the elements of temporary stasis and change immanent to any set of social arrangements (Tinker, 2005, p. 105). Analysis relying on the exchange form treats its object as transient and dynamic, thus stressing the inequalities which lead to change.

**Socially responsible investment as a form of institutional bricolage**

We begin an analysis of change and change resistance by identification of endogenous and exogenous features of governance and institutional processes that should be seen as bricolage (Hatton, 1989). A priori expectations are external regulation, self-regulation, fiduciary interest, delegation of portfolio construction, governance advisory external to and within trustee organizations, the popularization of corporate social responsibilities, and member pressure on governing boards. (Causal explanations of these features appear in the paper’s concluding sections.) The stated objective of review programs of Dutch and UK trustee organizations launched circa 2000 is to instigate a change of orientation in institutional investors away from an historical stance of unengaged owner-investors, in which involvement in invested companies has been limited to exercising proxy voting rights at annual general meetings, to a more normative orientation in institutional investors, extending to solicitation, the raising of shareholder resolutions on matters of strategic, environmental, social and governance risk, and portfolio screening. We call this class of activity intervention.

Direct interventions and portfolio adjustments made on governance and social grounds have been considered as a social movement (Davis and Thompson, 1994). Arguably, socially responsible investment fits the characterization of modern social movements as modular, cosmopolitan, autonomous, and exhibiting some form of cohesiveness, or internal solidarity (Gamson, 1975). Modularity is accorded from the response of financial markets to corporate social responsibility practices. Cosmopolitanism derives from socially responsible investment being present wherever finance capital is. Autonomy is afforded in direct, low-cost access of its proponents to regulators and power brokers (although this might justify a charge that socially responsible investment is not a social movement but a special-interest group (Buechler, 2000, p. 35). Solidarity, a sharply contestable quality in financial markets, is yet evinced by ‘collaborations’ of institutional investors formed to devise collective consultation, proxy voting and other behaviours (Carleton et al., 1998).

An historical institutional illegitimacy of socially responsible investment appears related more to geography. Emerging from the social activism of the 1960s, socially responsible investment has as its core the forces that gave rise to its repertoire of contention, lending a distinctly anti-modern flavour to calls for change in the sector. When the organizing
metaphor becomes the ideology of capital, the challenges put to that ideology are likely to be defused by the metaphor (Milne et al., 2006). The financial economics literature suggests that claims of eventual superior economic performance attached to social responsibility have, at most, materialized sporadically. It adds little to repeat the findings here. Perhaps in response to mixed economic performance and a fear of lost arbitrage opportunities, manifestations of socially responsible investment have moved from tailored portfolio construction taking into account normatively undesirable and desirable types of investments (Ali et al., 2003) to a more pragmatic placement alongside mainstream institutional investment. Direct consultation has become more commonplace (Amalric, 2004; Statman, 2000) as portfolio stocks and construction processes have come to resemble those of mainstream investments (Bauer et al., 2005).

Socially responsible investment practice has been theorized variously: from functional description (example, Kreander et al., 2002) and expectations of moral first-movers (Lewis et al., 1998; Smith, 1990), to manifestations of individualized conscience (Schwartz, 2003; Webley et al., 2001), institutional legitimacy (Haigh, 2006b; Owen, 1990) and the political economy (Clark and Hebb, 2004; Frankfurter et al., 1997). A case study approach of Leca and Naccache (2006) provides an atypical account of the institutionalization of one aspect of practice: the qualitative rating of companies included in investment portfolios. A shift from tailored portfolio construction of a few investors (Haigh and Hazelton, 2004) to intervention practices of most (Carleton et al. 1998) has brought benefits of internal solidarity, which until this paper has not received attention in the literature. Most institutional investors have charged their responsible investment sub-units with a dual function: to participate in portfolio construction (in-house consultation) and to monitor governance of invested companies (proxy voting, intervention). A contribution of this paper is its theorization of contemporary manifestations of socially responsible investment as a variable set of bricolage practices. We do not accept that bounded social interactions are likely to lead to institutionalization, as might the social constructionist strand of SMT (Buechler, 2000, p. 40). We identify how socially responsible investment practices have transformed embedded social actors into change agents posing significant challenges to institutional arrangements. We do this by examination of conflict and tension shaping consequent collective action.

Sources of institutional contradiction

Identification of sources of pressures for change clears a path to identification of sources of institutional contradiction. The analysis is informed by four sources provided in Seo and Creed (2002):

1. legitimacy of institutions that undermines functional inefficiency,
2. misalignment between a particular form of social arrangement and the interests of diverse actors who enact, inhabit, and reproduce that social arrangement,
3. institutional embeddedness that causes organizations to be unreceptive to process change, and
4. conformity to certain institutional arrangements within a particular level or sector that causes conflicts with the institutional arrangements of different levels or sectors.

The first source is outside the scope of the study (for detailed discussion of the social significance of European pensions arrangements, see Clark, 2000, 2003, 2007; Clark and
Bennet, 2003; Clark et al., 2001; Pemberton et al., 2006). The second source points at responsible investment (RI) units which can be found in most large pension funds and contain, almost by definition, incipient points of conflict to governance processes. As such, we expect that institutional arrangements do not serve the needs of professionals working in RI units particularly well. With regards to the third site of change, we expect a priori organizational resistance, at the level of the investment function (and possibly boards), to perceived threats of shifting the economic dominance in portfolio construction processes. This aspect is supported empirically in the literature, as we have already mentioned. Fourth, the institutions on which pension funds rely are intertwined and polymorphic: investment processes layered on the bureaucracy of governance layered on the social/economic significance of pensions maintenance (Pemberton et al., 2006, p. 9). The rationale of each institution is “often imbued with sharply inconsistent prescriptions for action” (Seo and Creed, 2002).

**Mapping points of incipient change and resistance to change**

In order to map points of incipient change and resistance to change, we borrow from Laughlin’s (1991) conceptualization of the effects of external shocks to organizational processes. Laughlin posits that trigger events give rise to dynamic processes. Trigger events are environmental disturbances or an event/s that places a demand for a response/s from an organization. Pathways that trigger events might take through an organization are characterized according to the degree of engendered change, taking two main forms. *Morphostatic changes* can be thought of as first-order, superficial, peripheral and transient: examples would be evinced by issuance of reports of intervention practices while investment processes remain unaltered. *Morphogenetic changes* are second-order, substantial, durable and core: examples would include shifts of investment ideology and organizational structures which supersede historical practices.

Incipient organizational changes are characterized along three concepts. *Sub-systems* represent structural elements such as resources, inter-relations of job functions, reporting lines and public reports. *Design archetypes* are composed of structures, decision processes and communication systems. *Interpretive schemes* are conceived as representing organizational ethos and culture, and consist of organizational beliefs, values and norms that determine the content of the design archetypes and sub-systems. Organizational bricolage and (re-)framing of the relevant institutional context (Hoffman and Ventresca, 1999) will operate at the level of interpretive schemes.

These concepts are used to characterize four types of organizational change. *Rebuttal and reorientation models* represent morphostatic changes, or business as usual. Rebuttal models deflect/neutralize the effect of disturbances through the archetype, leaving interpretive schemes and sub-systems as they were before. Reorientation models receive change as inevitable, if unwelcome, and contain change within the archetype and sub-systems. Resultant tensions in reorientation models present possibility for unexpected change. Gray et al. (1995) provide some empirical support. *Colonization and evolution models* represent second-order, morphogenetic changes. The main difference between the two is that colonization leaves the organization no choice but to accept change, whereas evolution treats the organization as actively embracing change. In both, change disseminates to interpretive schemes, design archetypes and sub-systems.
The models would appear apposite to the self-activating mechanism of change of dialectical analysis. Our departure is any expectation of a “final determination” (Seo and Creed, 2002) and a theoretical or concrete state of enduring balance/coherence at the end-point of change pathways (Laughlin, 1991). The expectation of steady-state normality has been received variously in the literatures of accounting and management (Gray et al., 1995; cf. Kirkpatrick and Ackroyd, 2000). A dialectical expectation of organizational change discounts the contribution of change resolution to an understanding of complexities in contemporary organizations (see, Luscher et al., 2006). We are led instead to entertain possibility that a “possible, but unwanted, state” (Laughlin, 1991, p. 213) of tension constitutes a vital condition for organizational change.

Data and method

The methods we have used were designed to identify the emergence of snow-balling sequences of events that might activate changes in governance regimes. Selection of the trustee organizations was informed by the scale of their investments, placing both among the largest institutional investors in Europe, and by their prominence in terms of investor intervention. Both have sought to be seen as progressive in terms of monitoring and improving governance of companies (Christensen, interview). Comparison of intervention practice was facilitated by common administration of occupational, public-sector pension schemes in countries which enjoy high coverage rates (Clark, 2006, p. 149; Clark and Bennet, 2003).

Sources for empirical material were wide as befits the design of qualitative fieldwork (Covaleski and Dirsmith, 1990). Data were gained over the period from December 2005 to May 2007. The relatively long period facilitated analysis of the causes to observed shifts in governance processes. Data sources were of two types: a series of interviews within the trustee organizations and with other stakeholders, and a selection of printed internal communications and public reports. One of the authors used action research as a primary research method. Additional sources of data were written recordings of telephone conversations, emailed responses to requests for information and field notes. The material was complemented by examination of the requirements of regulation, industry codes of behaviour, and commissioned reports placed in the public domain. A listing of these official documents is included as an appendix.

Interviewees were governance advisers working in so-called responsible investment units within the trustee organizations, regulators, advocacy groups, and other professionals working in financial services. Repeat interviews were conducted with the advisers. Other interviewees worked in non-governmental organizations that had historically lobbied the selected trustee organizations on investment policies; asset managers; and governance advisory consultancies. Sixteen in-depth, semi-structured interviews were conducted. Initial requests for interview were made by email. Replies were followed with telephone calls to discuss the objectives of the project and why the interviewee had been chosen. Notes were taken in interview and post-interview and were later transcribed. Interpretive field notes taken in a diary immediately after the conclusion of interview recorded selective impressions such as physical location, the apparent mood of the person being interviewed, body language, difficulties encountered with the ordering and choice of questions, and other factors thought relevant to the conduct of the discussion (Irvine and Gaffikin, 2006). On occasion, additional notes were written to record the contrast of contextual factors between interviews.
Initial classification of these “secret papers of social research” (Wolfinger, 2002, p. 86) was guided by a printed list of questions used to guide interviews (emailed to interviewees some weeks before the dates of interviews). Much of the data contained in field notes related to topics of discussion as introduced by interviewees. To address the problem of their classification, this source of data was triangulated with post-interview notes to determine its importance in context of the investigation. This treatment is a variant of the strategy for writing fieldnotes that Wolfinger (2002, p. 89) refers to as salience hierarchy. The classification process yielded three themes considered influential in governance change: responses to regulators’ calls for intervention; issues relating to intervention practice; and perceptions of the trustee organizations’ social responsibilities.

Themes thus obtained were confirmed when repeating the process after an examination of printed material issued by the trustee organizations. Anonymous documents issued by organizations are invested with a greater authority as a factual account than if attributed to a particular author (Irving and Gaffikin, 2006), particularly those published on the Internet (Paisey and Paisey, 2006). Although public documents tend to sanitize their accounts and are selectively silent on some issues (Collier, 2005), these documents are valuable for the effect they have on organizational members and for the disparity with actual practices. Interviewees confirmed that the sources of material and reporting points informed and captured all written reports on investment and governance issues. As mentioned, one of the case studies benefited from extended action research, as one of the authors at the time of the study held a position as governance adviser at one of the trustee organizations. Benefits were that we did not have difficulties with gaining an understanding of the motivations for investment policy and of talking the language of investments and pensions, enabling us to gain immediate in-depth insights into political mechanisms of policy. The need for flexibility, reflection and reflexivity is emphasized in action research if only because the process of obtaining research data can affect the action researcher’s attitudes about the organization, and hence, bias data interpretation. While retaining enthusiasm for the level of intimacy reached, we were cognisant of the need for proper consideration of the obvious non-neutrality (Irving and Gaffikin, 2006).

Three measures were chosen to counter interpretive biases with respect to the action research. A decision was made to use data pertaining to the period before September 2005, being the date of commencement of the action researcher’s position in his organization. Relevant data was gleaned using the same process of interview used elsewhere. Examination of documents issued by the organization was conducted by the other author, then confirmed by the action researcher, so as to mitigate possibility for role conflict (lobbying) and unwanted insider interpretation (reading between the lines).

**Regulation of European Pension Systems**

The underpinning of European national social security policies in financial markets (Grahl, 2006) comes in a period where the biggest investors of all, the pension funds, command dominant market positions and hold sustained ownership rights which span competing economic interests. Pension funds have controlled the voting shares of companies in Western economies for the past two decades (Becht and Roell, 1999; CBI, 1990; Conference Board, 2002; Faccio and Lang, 2002; La Porta et al., 1999). Institutional ownership in UK equity markets has been estimated at 65 to 80 percent (Gillan and Starks, 2003). Such power has had major consequences for the emergence of global practices in capital markets (Clark et al., 2001; Clark and Hebb, 2004) and has been imbricated as a
major social movement (Davis and Thompson, 1994; Davis et al., 2005; Kinder, 2005; Useem, 1993).

Intervention of institutional stockholders in the governance of companies can be traced to the Netherlands from 1924, spreading to other parts of Europe in the 1960s (Gillan and Starks, 2003) and to the US from 1985. Various objectives have been sought, most relating to investment risk (Pozen, 2002). Methods include solicitation, threats of investment exit made to force companies to amend policy or operations, and exercise of voting rights conferred by stockholdings on matters such as election of directors, authorization of shares for issuance, mergers with other corporations and adoption of stock option plans (Amalric, 2004; ICI, 2003). The risk of organizational resistance to imposed strategic change is heightened when participants comprehend such pressure as conflicting with conditions perceive as necessary for strategic success (Sastry, 1997). Received environmental conditions of trustee organizations administering EU pension schemes are the rise of the shareholder value doctrine in member states and the absence of strong legal frameworks restraining pensions practice[2]. The contextual influence of both, and particularly the effects of globalized equities markets, is suggested as strong (see, Friends of the Earth UK, 2001; Just Pensions, 2002, 2004, 2006; Mathieu, 2000).

Pan-European and national responses to the problem of regulating the financial-economic corpus have urged close association between institutional investors (primarily pensions, but also mutual funds, banks and insurance companies) and the companies whose stock they purchase. The European Parliament and member states (examples, Netherlands and the UK) have expected self-regulated intervention with invested companies to increase attention on management processes of trustee organizations and hence ameliorate investment risk. Reasons are various, including an objective to facilitate cross-border financial flows within a broader objective for an internal market for occupational retirement provision; provision for fiscal consideration in member states; and a related objective to improve pensions governance.

Pension reform is widely seen as essential in order to defuse the difficulties EU governments would otherwise face in respect of their social security pension systems in a context of population ageing [...] particularly when such reform involves funding of future pensions (Davis, 2000).

Investigations into the regulation of links between pensions and corporations have appeared in law (Roe, 1991), critical accounting (Grah, 2006), sociology and geography (Clark, 2007; Clark et al., 2001; Mintz and Schwartz, 1990), management studies (Davis, 2000; Davis and Thompson, 1994; Gupta and Lad, 1983; Rowlie, 1997; Thompson and Davis, 1997) and have come from interested observers and professional associations. However, investigation of the dynamics of changes to institutional investor governance has been limited. Studies on institutional intervention have focused on influence on governance (or economic performance) of invested companies rather than governance of investment institutions (see, Agrawal and Mandelker, 1990; Carleton et al., 1998; Cheng et al., 2006; Claessens et al., 2002; Davis and Thompson, 1994; De Graaf and Herkströter, 2007; Del Guercio and Hawkins, 1999; Derwal et al., 2005; Franks et al., 2001; Gillan and Starks, 2000; Prevost and Rao, 2000; Shleifer and Vishny, 1986). Another stream of work has contrasted national systems of institutional governance (see, Charkham, 1994; Gillan and Starks, 2003; Reynaud, 2000). The tendency of much of this work to rely on the functionalist logic of agency theory found in (see, Jensen and Meckling, 2000; Williamson,
2000) has received criticism on grounds of relevance (Davis and Thompson, 1994) and its almost automatic disqualification of the requirements for economic-social praxis (Clark, 2007; Roberts, 2001).

We redress this by making an analysis of the relations between intervention and governance change in two European pension funds; one located in the Netherlands, the other in the UK. The study comes at a time when inter-relations between European institutions of collective social welfare and securities markets are being shaped by globalizing economic markets and collapsing social security nets (Grahl, 2006). In this regard, our analysis illustrates the interaction of globalized securities markets on domestic arrangements such as national regulations. The concept of self-regulated pension governance is widespread in Western jurisdictions. The US Employee Retirement Income Security Act (1974) requires minimal disclosures from trustees of employee benefit plans on their proxy voting policies in investment portfolios (US Department of Labor, 1994, 2004). The European Commission has commissioned a number of studies and has published consultative documents on various aspects of governance, shareholder engagement and socially-related institutional investment (see, Clark, 2000; Grahl, 2006). France, Germany and Switzerland offer taxation benefits to investment managers that choose to deploy socially-related investment policies. The United Kingdom, the Netherlands and Australia encourage pension trustees to involve themselves in governance of portfolio investments, yet refrain from specifying how such activity might be conducted and reported.

The Netherlands and the UK have sought in recent years to transfer their social security burdens to privately-funded pension schemes (as has the US and Australia). Both the Netherlands and the UK provide occupational, sector-wide pensions (optional in the UK) which make large investments in developed securities markets that compete internationally. OECD and World Bank data show that private funded pensions in the Netherlands and the UK make major contributions to retirement income provision (see, Davis, 2000). This feature is at odds with most other European countries. Historical differences between the Netherlands and the UK are discussed in Whiteside (2006, pp. 131-8) and elsewhere. The next two sections outline salient regulatory structures affecting pension schemes in the Netherlands and the United Kingdom, respectively.

Regulation of British pensions

Laughlin (1991, p. 229) sums up the widespread commercialization of public bodies that occurred in Britain at the end of the 1980s:

> [...] the current U.K. Government [appears to hold an] overarching view that, given enough economic pressure on public bodies (particularly those devoted to education and health), major forms of change in the interpretive schemes (supposedly for the better) will result – a ‘colonization’ change in the terminology of this paper.

90 percent of British public-sector employees and less than 40 percent of private-sector employees were covered by occupational (industry) pension schemes in 2000 (Clark, 2006, p. 149). The present UK Government’s view on occupational pension schemes appears to be that given enough regulatory pressure on both public- and private-sector entities desirable forms of change in interpretive schemes will be produced (Clark, 2004). In 2000, the then-Chancellor of the Exchequer commissioned Paul Myners, then-CEO of a UK fund manager,
to conduct a review of institutional investment decision-making. Myners noted unaddressed conflicts of interests between investment advisers, managers and governing trustees, urging that trustees focus on the potential for adding economic value to portfolio investment through active shareholder engagement. A set of subsequent recommendations urged trustee boards (estimated at 7,000 from a total of over 100,000 pension schemes - some 80 percent of total scheme membership) to design comprehensive activism policies. Policies were recommended by the Trade Union Congress, the Institutional Shareholders’ Committee and the National Association of Pension Funds. A subsequent review of practice by Myners in 2004 found that most trustee boards had ignored the recommendations, fueling the UK regulator’s concern that governance of trustee companies was generally not taken seriously.

The UK government, which has stated that its ‘light touch’ regulation is designed to stimulate a cultural change in financial services, has limited a call for intervention practices to a regulation requiring trustees of occupational pension schemes to disclose investment policies in a Statement of Investment Principles [Pensions Act 1995 ss35(2) and (3)]. The British requirement reflects recognition of the requirement for a statement of investment principles contained in the European Directive for occupational retirement provision. Such legislation, and obligatory ‘reviews of progress’, are heralded by all concerned as evincing proper concern for the stability of securities markets. Responses to pressures for EU members to integrate their financial systems have been interpreted as symbolic and legitimating (Grahl, 2006). The passage of such legislation tends to arrive not as a shock to the market but rather as symbolic activity: ‘proceeding from one rite of organizational existence to the next in a smooth flow of routinized ritual activity’, as commented by Crowther et al. in another context (2001, p. 235). The following wording applies to UK trustees’ Statements of Investment Principles and was taken up in the Netherlands from 2003:

 [...] disclose the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments.

Survey studies suggest a generally muted response from pension funds in the Netherlands and the UK (Dijkstra and Sprengers, 2005; Friends of the Earth, 2001; Just Pensions, 2002, 2004, 2006; Mathieu, 2000). It is the influence of this regulation on governance processes of trustee organizations that forms the object of this paper.

**Regulation of Dutch pensions**

Over 90 percent of Dutch employees are covered by occupational pension schemes (Clark and Bennet, 2003). The Dutch pension system is built on three types of contributions: annuities arranged under private life insurance; a state pension funded from general tax revenues; and industry-wide and corporate occupational ‘supplementary’ pensions, to which employers are required to contribute. Employees may also make contributions to their supplementary pensions if arrangements are provided for in collective bargaining agreements. In May 2006, 390 billion euros were held by approximately 1,000 occupational schemes, representing entitlements of 5.4 million active and retired members (VVB 2006).
Pensions reform in the Netherlands was instigated by the European Unification program for a single, internationally competitive, pan-EU financial services market. The Financial Services Policy 2005-2010 heralded the advent of a range of changes such as investment choice for beneficiaries of all pension schemes in EU member states (negated by the Netherlands). Investor intervention is mandated in codes of corporate and pensions governance issued following a government committee review in 2003, chaired by Mr. Morris Tabaksblat. The Pension Fund Governance Code, effective July 2006, also requires that the governing body of a Dutch pension scheme decide its proxy voting policy and whether ‘social, ethical and/or environmental considerations are to be taken into account’ in the investment process.

Overlooking the replication of certain clauses in the British Pensions Act 1995 by the Dutch authorities, we note several differences between Anglo-American and Dutch governance arrangements. One, the governance of trustee organizations administering Dutch industry-wide pension schemes is characterized by overlapping executive boards and, often, weakened supervisory boards due to competing cross-holdings of stock in invested companies (Clark and Bennet, 2003). Relatedly, a concept of social solidarity (corpus) underpins Dutch governance (bestuur) and explains the close relationship of occupational pension schemes with national welfare policy. Social solidarity combines principles of equality (due entitlements to beneficiaries), fraternity (collectively determined governance) and mutual protection (risk management reflected in insurance policies providing for beneficiaries). Arguably, the principles are reflected in the structure of trustee organizations administering Dutch pension schemes as foundations (non-profit mutual insurance institutions). Foundations do not privilege positions of beneficiaries over those of other stakeholders, a feature which has caught the attention of the EC. Governing bodies (ledenraad) of occupational and public pension schemes are composed of representatives from employers (the employers’ council) and the employed (the works council). The latter is often constituted by representatives of labour unions.

Case Studies

We acknowledge possibility that intervention cements the power of large investors over invested (and non-invested) companies, completing the transfer of the historical role of the state to finance capital (Aaronovitch, 1979; Glasberg, 1989; Heydebrand, 1977; Hilferding, 1981). While this should not be ignored in a dialectical analysis, our theoretical focus is not an examination of systemic effects but identification of organizational conflict attributable to pressures for intervention practices. Our specific objective was to identify if and to what consequences intervention was separated from investor governance, i.e., the investment process. Following a brief introduction, each case study begins by presenting interview material. This is followed by analysis of public documents and, where relevant, of internal policy documents and communications. In each case, the empirical material is followed by consideration of relations of bricolage and governance practices.

A Dutch Trustee Foundation

The Dutch foundation reported a market value of investments of 70 billion euros, and two million members, in December 2005. The scale of the foundation’s investments at the time of study made it one of the largest investors in the European Union and administrators of one of the five largest pension schemes in the Netherlands. Like most European sector-wide pension schemes (not, however, in the UK), the scheme is a fully-funded defined benefit
plan. 30 percent of assets are equities, of which 60 percent are offshore. Five socially-tailored (ethical investment) products were on offer in 2006: four were indexed to the UK-based FTSE4GOOD index; the other was internally managed and used a legacy exclusion investment screen (weapons, human rights).

One of the two advisers in the foundation’s Responsible Investment unit was chosen for interview. The unit, with responsibility for monitoring governance of invested companies, had reported directly to the CIO (chief investment officer) until 2006, when it had reported to the chief strategist who reported to the CIO. Direct intervention was considered superfluous to investment policy. The following two quotations provide reasons.

A decision to buy or disinvest a company depends purely on the economics. It’s all determined. ESG [environmental/social/governance] research can not be used since the final decision is married to a quantitative process. We’re a large investor with thousands of small holdings in companies. The performance of any one of those stocks really does not affect us economically. We’re more interested in ensuring that we invest in companies with sound corporate governance.

The problem arising when beneficiaries get interested in what’s happening with their money is that investment processes are technically driven by professionals. It’s almost impossible to change as investment management practices are market-driven. The investment industry has stalled. Take bonuses and targets on a yearly basis-you can’t change those standards.

Monitoring of governance was considered more appropriately executed by groups of institutional investors which could use their influence to lobby on public policy and, it was hoped, so influence their organizations’ interpretive schemes.

The problem for effective consultation [of companies] is the holy grail of diversification. We no longer take large stakes in one company in one region or in one sector, so we can not be really responsive towards the companies in which we invest. At the moment, one of the things we’re interested in is investing in other types of assets in a responsible way. A stable pension fund such as ours would serve society better in an essential asset such as an airport than a private equity bank that will carve it up and do not-so-nice things with the inherent value.

The three interview extracts immediately above inform on relations of the concept of universal investment (Hawley and Williams, 2000) to intervention practices of large institutional investors. Most pension funds, for portfolio balancing reasons, usually only hold a very small proportion of a company’s share capital; therefore there is advantage in pooling the lobbying of companies or industrial sectors. Collective action also reduces free-rider problems. The interview extracts also lend support to the contention of Friedland and Alford (1991) that it is political processes that determine which institutional logic should regulate particular and contradictory institutions (in this case: governing boards, portfolio construction, and investor intervention).

To be effective, then, in terms of its governance oversight role, the Dutch foundation had focused on a number of issues in collaboration with other large funds. The interviewee
considered the RI unit’s discussions with other large institutional investors as “a good thing” where “we are taking the lead in the minor changes in the sector”. For example, the company is an initial signatory to the UN-issued Principles for Responsible Investment document, which is aimed primarily at trustee organizations and their agents. (Signatories undertake to deploy social, environmental and governance considerations in portfolio construction and make appropriate public disclosures to that effect.) Another example is membership of Eumedion, a foundation of Dutch institutional investors concerned with matters of corporate governance. Its chair had been filled by the CEO of the foundation since 2001.

Eumedion and other groups were said to have “led to a new community of professionals” to which the labour unions and employer organizations (ubiquitous in Dutch governance) had not been invited. A benefit of such groups cited by the interviewee was that a non-conflictual space had been created containing a desired level of trust and common interests. The following interview extract informs on the rationale and provides further examples.

If you want change in a sector, you need two stakeholders to change. If you want a company to change you first have to change the environment and the sector in which that company operates. You need to create room for change. We belong to Eumedion, for example, which is an example of a collaborative attempt at changing sector-wide investment practices from a policy perspective. The Institutional Investors Group on Climate Change is an example to change the industry and companies invested in and the Pharmashareownersgroup, Pharmafutures and the Carbon Disclosure Project are attempts to change the companies invested in.

Although change catalysts are inevitably political in nature (Spicer, 2006), local ideals were also significant. For example, intervention was construed as unnecessary conflict.

We are all struggling with how to integrate it. But when it comes to pressuring companies on the floor, it’s not very nice, it’s not Dutch practice, you don’t force people ... After all, we are all gentlemen. The problem is the strong Anglo-Saxon orientation of current corporate governance. They talk about ‘owners’. In the Netherlands, it’s not normal to talk about ownership.

The extract informs on one of the paper’s objectives: to illustrate empirically the relations of globalized investment markets with local systems of governance. Previous research suggests alignment difficulties (Kleiner, 2003, p. 80). In regard to the bulk of its investments (overseas stocks), the board had subcontracted execution of intervention practices to a firm experienced with Anglo-American investment markets. This decision was as much to do with resource constraints as it was with the board’s inexperience with direct intervention (and possibly intertwined). The quotation also alludes to the stewardship model of organizational governance that holds sway in the Netherlands. The Tabaksblat document, as shown in its Preamble, seeks to broker non-antagonistic relationships between investees and investors:

The principle accepted in the Netherlands [is] that a company is a long-term form of collaboration between ... employees, shareholders and other providers of capital [shareholders], suppliers and customers, but also government and civil society.
Restraint is considered an important principle in the relational systems of Dutch governance. Dutch companies commonly include social objectives in their articles of association. The principle leaves little space for intervention, as suggested by the following interview extract.

US- and UK-based private equity and hedge funds are trying to change the Dutch governance system. They believe that shareholders (as owners) can attack companies, independent of the objectives the owners have, where the Dutch system has been designed as a balancing power between shareholders and other stakeholders.

Other constraints to intervention were mentioned by the interviewee. Political implications of cross-shareholdings had complicated intervention practice. A recent nomination of the foundation’s former CEO to chair of the supervisory board had compromised the organization’s review function. Two, the RI unit was functionally isolated from the investment function. And finally, levels of resourcing had not matched the level of scheme investments and had frustrated communications. The two employees in the RI unit were responsible for casting votes at local companies, activity which exhausted available time in the reporting cycle. By industry standards, 60 company meetings to be covered by two analysts is a relatively heavy load (Mills, interview). The monitoring program relating to international investments had been contracted to an agent. Communications between the agent and the RI unit had been poor; a result being that intervention had been ignored in offshore investments.

Turning to public information provided on intervention, the foundation’s website and reports had referred readers to the websites of Eumedion and the Enhanced Analytics Initiative for relevant details. Mention of the foundation or its administered scheme could not be found on the website of either group at the time of study. A website link provided to a report on activism in offshore stocks was broken.

To gain further insights into intervention practice, the policy director of a certain non-governmental organization was interviewed. The NGO, whose membership is constituted by Dutch and British banking institutions and certain activist non-governmental organizations, has historically monitored Dutch investors on governance issues. Its director discounted intervention practice in the Netherlands generally and dismissed the Tabaksblat requirement for compliance-style reports:

On voting policies some pension funds do give clear statements and disclose their voting, however, only as related to corporate governance issues. Social and environmental issues are hardly ever [reported as being] taken into account. The relation between voting policies and sustainable investment policies is unclear (translated from the Dutch).

The director suggested three impediments to intervention: the exposure of investors to global equity markets; the local, small market for managerial talent; and reluctance of investors to admit that accepted conceptions of good governance would rule out exclusion of economically attractive investments on social/environmental grounds.
The influence of bricolage practices on investment processes

The data as presented above allow us at this point to interpret the results of our fieldwork in the Netherlands. Unwillingness of the board to alter current governance arrangements was due to at least six factors:

1. at the level of interpretive schemes, a paradigmatic orientation towards maximization of funds under management and, accordingly, exclusive focus on quantitative investment processes;
2. a belief that current institutional arrangements sufficiently provided for social responsibilities;
3. reluctance to confront boards of companies;
4. at the level of design archetypes, insufficient resourcing levels to do so anyway;
5. small holdings in any one company (holdings did not exceed 2 percent of any company), and
6. hesitation at the expense of an investment screening policy for offshore stocks.

While it is possible that the board’s response to regulation represents exception to that of other Dutch trustee organizations, we consider it unlikely. The foundations’s proportion of equity investments is relatively small by Dutch standards, suggesting that if anything other Dutch trustee organizations would be more exposed to Anglo-American investment processes. In the Dutch consensus-oriented tradition (Visser and Hemerijck, 1997), dialogue is seen as the key to change. Current strategy formulation and implementation is more about silencing multiple discourses (Diefenbach, 2007) in line with perceived necessity to conform to neo-liberal exigencies of globalized investment markets. The nexus between the two institutions is one of continuing conflict.

Responses to external regulation and industry codes of practice were to disseminate intervention practice from the design archetype (investment charters) to sub-systems (the RI unit), leaving interpretive schemes (fiduciary interest, beneficial interests) exactly as they were before the disturbance, and hence, smothering the disturbance. For reasons related directly to EU pressure for open financial markets and a timely example from the United States, the foundation had announced in its members’ reports issued 2006 a plan to restructure from a foundation to a co-operative. The plan required creation of a separate entity that would be charged with governance policy of the pension scheme.

Formulation and implementation of intervention practice was determined by influence, power and control (Diefenbach, 2007). In keeping with the historical antecedents of Dutch occupational pensions in the private sector (Whiteside, 2006, p. 136), provisions in the Tabaksblat Code and the Dutch Pension Fund Governance Code mandating intervention and corollary disclosure had had little noticeable effect on governance processes. Internally, the RI unit had no formal influence over the CIO and was not represented on the Board. Politicized social objectives such as economic/social sustainability (as sought by the RI unit but resisted by the board) could only be dealt with effectively “with a new type of arrangement of enunciation [which might change] the whole format, the whole type of work we are doing here” (Guattari, 1996, p. 13). The board’s resistance to imposed governance change had manifested in a modified form of bricolage whereby the RI unit participated in the formation of investor lobby groups. That intervention practice has been treated by the board as nonessential had led to the RI unit searching outside the foundation, in the words of
the interviewee, to “develop new groups which take a slightly different position, which lead to new groups, which take another, a bit more radical position.”

A British Trustee Company

The British company administers one of the largest pension schemes in the European Union, reporting to over 200,000 members in March 2005, at which date the market value of portfolio investments was over 20 billion Great British pounds. Through 2005-2007, the company reported over eighty percent of assets as equities, of which approximately a third was managed by external managers. All UK equities were managed in-house. (A high proportion in stocks is a feature of UK pensions.) Investment activism policies had been in place since 2000 for several index-tracking and actively managed products, the latter using various permutations of exclusion screens.

At the time of interview, two consultants comprised the Responsible Investment division, of which the senior consultant was interviewed. Objectives of intervention were given as

   endeavouring to change the processes of the investment sector rather than seeking to affect operating policy in individual firms that the fund has an ownership stake in. We haven’t done a lot of engagement. We’d be better off changing the whole investment sector. (emphasis added)

This opinion was related to governance arrangements. The response given to a question on the treatment of intervention by investment managers was as follows.

   Managers would treat single-issue engagements underneath regulatory risk on their models of investment value. The Chief Investment Officer has no plans to use investment activism in regular valuation processes.

Other arrangement reifying economic value was, primarily, investment processes, and remuneration bonuses of investment managers (and of staffers in the RI unit) based on profitability of the investment division.

   The main blockage, and this is across-the-board, is the mandates and timeframes over which investment decisions are made. Most of these issues do not manifest in vanilla, mainstream investment risk. And lack of information about these things in a language that portfolio managers can pick up.

Other “more important” initiatives were mentioned, such as the unit’s mobilization in a number of investor clubs. Mention was made of one such club’s successful lobbying of the Securities Exchange Commission for remuneration disclosure in US companies, and involvement with the Office of the UN Secretary General in the development of the Principles for Responsible Investment document. The RI unit had leveraged the club (Enhanced Analytics Initiative) to pressure its own board to allocate a proportion of broker commission to research in governance issues.

The interviewee related that criticisms had been fielded from a certain non-governmental organization for not “beating up this company or that”. The criticisms appeared to have influenced subsequent strategy. The interviewee considered that certain challenges brought
by the RI unit to a British manufacturer and a US media company (concerning marketing practices, taxation avoidance and a voting decision taken with respect to a takeover defence) “should keep everyone happy”. IN November 2006, subsequent to those activities, the trustee board adopted an active engagement policy.

The managing director of the aforementioned NGO gave a blunt assessment of the board’s intervention practices: “We haven’t been able to point to specific outcomes. They [the trustee company] do have an explicit policy for engagement but they don’t follow it.” The main perceived impediment to intervention was an absence of “internal pressures in investment companies to consider non-economic issues”. The interviewee considered that compliance-styled reporting on intervention was thought to engender a generalized mentality that intervention need not affect core business.

Company-issued reports on intervention practices evinced separation from investment processes. Material for examination was selected from the corporate website in April 2006 and again in May 2007. Material contained multiple pages on various aspects of intervention policy. We begin analysis with the company’s Statement of Investment Principles (2006). Although the range of reported matters was wide, the constraint of an 8-page document evidently dictated a condensed report of aspects of investment policy. The document began by describing the purpose of the report relative to the scheme’s overall investment policy, followed by description of governance structures; investment objectives, strategies, management structures, asset mix, economic objectives, risk management strategy, performance monitoring, expected costs, uses of assets, and responsible investment policy.

The RI unit was clearly not involved directly in the investment process. It is puzzling then to read that internal and external fund managers have been charged with using their ‘influence as major institutional investors to promote good practice by investee companies and by markets’ and monitoring identified practice in order to take such ‘into account when making investment decisions’. Description of the integration of extra-financial considerations in the investment process was not made. Strategy of ‘engagement with management’, in the forms of exercise of voting rights and ‘collaboration’, was given as an objective. Methods used by the investment committee to monitor managers in this respect were not mentioned. Custodial lending of securities, a commonplace practice in securities markets and followed in this organization since 1998, was not reported as subject to responsible investment policy.

Other documents on the corporate website justified engagement policy more explicitly, including passages such as the following:

By definition, the nature of the most intractable and controversial issues are such that no single fund, no matter how powerful, can address such issues on its own. Progress requires systemic change and in turn, that requires complementary but different strategies by different players. Pension funds are suited to acting as the catalyst for change amongst the sector as a whole.

To that end, several documents could be found informing on collaborative initiatives. The company was a founding signatory to UN Principles for Responsible Investment, a copy of which could be found on the website. Other documents included copies of letters to the Securities & Exchange Commission on disclosure of executive compensation and to the
International Accounting Standards Board urging for comprehensive corporate performance reporting. Both letters had been co-signed by the Chief Investment Officer of this trustee company, by administrators of other pension funds and by asset analysts operating in Europe, America and Australia. Another document reported activities by the Institutional Investors Group on Climate Change (of which this organization is a founding member). Such activities included lobbying of various governments and policy development with bodies such as the UN. The website also contained a template list of questions for trustees and members of occupational pension schemes to reference when assessing responsible investment practices, or lack thereof. The list categorized collaboration with other fund managers as a measure of the effectiveness of responsible investment policy.

In sum, printed public reports and other material, to the extent provided, created images of the company as a diligent if instrumental monitor of its own governance and that of its invested companies. The instrumentalism of attention to governance is derived from recognition of economic prudence; to quote from a paper on the corporate website: ‘the bottom line duty of all occupational pension fund trustees continues to be to maximise the financial performance of the funds they hold on behalf of individual members and pensioners’. Pressures to change governance processes, whether coming internally from the RI unit or externally from such as the Myners reviews, have been treated by the governing board as subject to this economic principle.

Note is made that the company’s quarterly reports on its RI activities (reaching back to 2002) had not provided details on shareholder motions raised on its own account. Emphasis tended instead to ‘thematic engagement’ and lobbying activities of government ministers. Further, reports of intervention and other activities as available were separated from corporate financial results: “the script has been divided because each part of the script is intended to be directed at a different part of the audience” (Crowther et al., 2006, p. 189). However, the causes of this separation relate to statutory requirements other than to for trustees to disclose the extent to which social considerations are used in the investment process.

**The influence of bricolage practices on investment processes**

Job functions and lines of reporting between RI units and the board of directors were no different to those of other trustee companies, which might appear surprising relative to the company’s advocacy of intervention and socially-directed investment practices. Intervention practices in investment portfolios had been few. To an extent, intervention was superfluous to RI policy, despite the attention directed by Myners and the UK government on particular portfolio processes of individual pension schemes. Intervention practices were constituted, in the main, by sporadic solicitation of management. Of itself, this suggests reluctance with regards to organizational intervention policy. The board had decided against adopting Myners’ recommendations in 2001 and 2004 for wide-scale intervention. The RI unit did not report formally to the Investment Committee, although it had reported its involvement in those ‘key investment decision-making processes’ which related to assessments of quality of management and portfolio weighting decisions. Training in governance issues provided to investment managers consisted of induction training and updated reporting on the corporate intranet.

We suggest that legislative attention on individual investors is misdirected, as desired changes in investment processes, or at least pressures for desired forms of change, have
been brought at an organized, sector-wide level. Interviews and printed material pointed to a focus on bringing changes to accepted investment practice in the entire sector. *Bricoleurs* (the RI unit) had subscribed to, and in some instances had formed, pressure groups which sought to lobby brokers, regulators and investment analysts of the merits of activism. Desired changes, if successful, were expected to affect governance processes of the trustee company, but by bringing change to antecedent institutional processes: brokerage, custodial, asset analysts, and even regulators. This mode of change points to the institutional level, meaning the interpretive schemes, rather than to the organizational level, meaning the individual archetype. The extent of bricolage activities, as had their successes, had evidently multiplied during the eighteen-month period of study.

**Conclusions on Governance Change**

An important contribution of our paper is the description of self-regulation as a response to threatened legislation. The evidence we have gathered suggests that governance systems have not been affected by minor regulatory initiatives urging that intervention be absorbed in investment processes. Note is made that the Netherlands investment industry has not taken the step of policing itself. Self-regulated intervention practice in the Dutch foundation was muted at most and in the more usual case constituted impression management (Goffman, 1969), leaving unaffected pre-existing interpretive schemes and archetypes. Moreover, the observation that intervention practices in the offshore markets was enabled and frustrated by delegation carries serious compliance implications to European regulations. In the British trustee company, quasi-self-regulation took the form of expected compliance to codes of behaviour issued by industry associations. A relation between the form of self-regulation and the incidence of direct intervention is doubtful, however. Interview data suggests that intervention practice in the British company was also guided by a desire to manage impressions.

In both organizations, potential for change to governance processes emerged at institutional rather than organizational levels. In characterisation with *bricoleurs*, the *modus operandi* employed by RI units was to review the constraining resources at hand and consider how they might be used to further the project of responsible investment (Hatton, 1989). A resultant mobilization led to incipient, if not always realized, change in interpretive schemes, primarily by creating a space in which professionals could articulate requirements for collective political action (Davis and Thompson, 1994). A corollary disembedding process shifted the relevant frame of political action outside organizational archetypes, changing the mode of delivery and, it was hoped, its eventual organizational reception. Figure 1 describes the spatial shifts.

**INSERT POINT FOR DIAGRAM: FIGURE 1**

The larger circle in Figure 1 describes institutional processes of investment design, construction and regulation: portfolio construction, brokerage and external regulation. The second circle, which is embedded in the larger circle, depicts political constraints imposed on a RI unit by its immediate organizational archetype. In response, organizational members working in the RI units (the smallest embedded circle) disembedded from their immediate employers to join/form social movements (line pointing out to the free-standing circle). The programs of the RI units are now reframed as part of a professional activist program. The movement serves to put space between the RI units and their organizational archetypes, allowing strategy formation and deployment.
A second move completes a sequence which bears more than a casual allusion to the waltz variant known as the *valse à deux temps*[^1]. Pressure for pension fund governance change comes from the activist frame (depicted as the arrow leading back from the free circle) and is brought at the level of institutional processes. This step is used to build political capital (Bourdieu, 1998), which, as RI units re-embed in their respective trustee organizations, was hoped to persuade governing boards of the merits and acceptability of intervention. Lévi-Strauss (1974, p. 16) has described this turn-around or other direction as the action of “a ball rebounding […] or a horse swerving from its direct course to avoid an obstacle”. The description has been taken as implying that *bricoleurs* sometimes use technical means for achieving goals which are in some relevant respect circuitous or indirect, most often *ad hoc*, and informed by imagination, experience and hazard (Hatton, 1989). The strategisation represents attempt “to perceive something which is not yet registered, inscribed, identified” (Guattari, 1996); that is, to change the adaptive capacity of governing boards. The evidence presented here suggests that two prominent examples of European socially responsible investment, constrained by structures of beliefs in the salience of market indexes and economic conceptions of fiduciary interest, have come to rely on such lobbying efforts as their main legitimate mode of action (Kraatz and Zajac, 1996).

**Conclusions on a Dialectical Approach to Social Movement Analysis**

Although the inductive methods we have chosen would allow us to extend our analysis no further than governing organizations of large pension schemes in the countries examined, we believe that our dialectic analysis has provided theoretical advancement on processes of organizational change. Data-gathering activities were designed to identify sites of conflict and emergence of snow-balling sequences of events sufficient to promote changes in governance regimes. A dialectical approach to social movement analysis allowed governance processes and institutional logics to be interpreted from the source of resistance to pressures for change.

The case studies illustrate the explanatory power of a dialectical perspective lent to social movement analysis. We began our analysis of resistance to change by proposing certain endogenous and exogenous features of governance and institutional processes as bricolage. Exogenous threats of external regulation, self-regulatory industry codes of behaviour, the concept of fiduciary interest, and delegation of portfolio construction inhibited governance change in various ways. None of these, however, presented as sites of conflict. In contrast, governance advisory within the trustee organizations, the popularization of corporate social responsibilities, and member pressure, represented endogenous/exogenous sites of conflict and as bricolage functions. Governance advisory services disembedded to coalesce with actors from other organizations in a professional social movement. The focus of this movement was institutional processes determining investor governance. Governing boards had been made aware of popular expectations and of calls from some scheme members towards pension fund engagement. In response, the British company had strengthened its intervention practices. The board of the Dutch scheme had decided to restructure the organization for purposes including provision of opportunity for contribution of members in governance processes.

Actors who engage in bricolage seek to displace the source of conflict from organizational archetype to institutional interpretive schemes. The movement allows space for strategic framing, politically acceptable articulation of desired outcomes (Kraatz and Zajac, 1996) and targeting of desired change. Analysis of social movements and organizational change is
benefited by theoretical description of these phenomena in their own terms: that is,
description of process dynamics and likelihood of success. Importantly for the researcher, a
dialectical perspective allows theoretical and concrete involvement. Strang and Meyer
(1993) suggest theoretical insights are necessary to promote the success of change agents
and change initiatives. In this respect, Bourdieu’s call for a scholarship with commitment
involving a “collective politics of intervention” and a “sustained exchange with the outside
world” (2001, p. 24) contains a call for reflexive theory-building informed by identification
of the moments of social conflict.

[1] We define institutions as routinized processes by which individuals and organizations
produce, reproduce and validate the theoretical and concrete substance of their existence.

[2] The Treaty of Rome requires that EU competition policy pertaining to an integrated
market for financial services be balanced against objectives of economic and social
cohesion: Article 3(1)(j). The European Court has found in favour of tilting the balance
toward the latter.

[3] The valse à deux temps is a variant of the classic Viennese waltz dance form. It is
distinguished by two steps which take up the waltz’s three-beat measure. The first step is a
sideways sliding movement – pas glissé – occupying the first two beats. The third beat is
taken up by a gliding turn – chassé – from which the partners face each other in new
directions.
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Institutional processes (asset analysts, brokers, securities custodians, regulators)

Archetype (boards)

Inter-organizational governance advisory units

Disembedded intra-organizational groups