CATÓLICA LISBON SCHOOL OF BUSINESS AND ECONOMICS

Matching Social and Financial Logics in Ethical Investing: The Case of Etica SGR

MSc Candidate: Alberto Cellini

Academic Advisor: Professor Tommaso Ramus

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Abstract

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Nowadays some financial operators are challenging the boundaries between the social and business sectors, developing financial instruments that enable investors to pursue social issues along with financial returns. This sector developed in Europe at different speeds and followed different paths. While in some European countries numbers related to the ethical investment sector are starting to be remarkable, in Italy this approach is still in an early development stage. The objectives of this research are to provide a framework of ethical investing and suggest financial operators a possible strategy to overcome organizational problems that result from matching social and financial logics. I will address the first providing clear definition of ethical investment and, following an approach of building blocks, I will explain how it is implemented over Europe. I will be able to show the role that institutional investors represent in this context and the barriers that in Italy still brake the development of the sector. Then, using the modern literature on institutional logics I will study the case of Etica SGR, a company leader of ethical investing in the Italian market. I observed that the strategy that it implemented in order to manage multiple institutional logics is particularly suitable for growing companies, a stage of business cycle still not addressed by the literature.

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Preface

Since the first year of university, I have been interested in the theme of investment funds. The idea of conveying resources in support of worthy activities is a concept that well matches with my personality and my path until this point. I considered this dissertation as an occasion to make a necessary investment in my professional future.

Through this research I wanted to understand how investment funds work in Europe and in Italy, an environment in which I would enjoy working in the future. I wanted to understand the functioning of sustainable investing, a growing sector that has the potential to match my interest for the investment sector and my orientation toward sustainability. Lastly, I wanted to experiment the academic research field, an experience that even if on a small scale gave me the perception of the challenges and the responsibilities that a researchers lives day by day.

From my point of view, I managed in all the purposes that I set. Of course this result would not have been possible without the help of the people that followed me in these months.

So the first thanks goes to my supervisor, professor Tommaso Ramus. His support in this project has been fundamental for reaching interesting conclusions and to organize properly the amount of data collected. He taught me that communicating in a clear and organized way my knowledge is as important as the contents. He has been able to show me how to improve my communication skills in written tasks and this help was not only useful for this dissertation but will also help me many future occasions.

The second thanks goes to my dear flat mates, for their psychological support and material help. Thanks to Andrea, Federico, Shuichiro and Eiichiro for making me feel part of a family and for the fresh air they brought in my life.

The third goes to Anna and Chris for their help in the final phases of this thesis.

The last of course goes to my family, for the constant support and pushes to improve that they are able to give me even living far away.

List of Acronyms

AUM: Assets Under Management

ESG: Environment, Social and Governance

NAV: Net Asset Value

SRI: Socially Responsible Investment

List of Exhibits and Tables

1. INTRODUCTION

"Mixing profits with principles can be a tricky business, as the events of the past 12 months have shown. [...] But the timing of the launch (of the FTSE ethical investment index) couldn't have been worse in terms of what's been happening to the markets, and they certainly won't be breaking out the organic champagne to celebrate the indices' performance."

- Rupert Jones[1], July 2002

"The top-performing ethical funds have rewarded investors with gains of 40% to 50% over the past three years, compared to just half that from funds that tracked the FTSE 100 over the same period…"

- Rupert Jones, October 2013

"The reasons why in Italy socially responsible asset management market hasn't taken off yet are complex. In don't think that the difference of some decimal points[2] will remove them. [...] Positive results as those of Etica SGR can be much more encouraging than tax exemption."

- Davide Dal Maso, February 2013

Nowadays, ethical investment still remains a controversial topic. If since 2002 in Europe there has been an evolution from skeptical approaches to recognition of the effectiveness of ethical investing, in Italy this market still suffers some delay.

While in some European countries the numbers related to the ethical investment sector are starting to be remarkable both in terms of number and size of the funds, in Italy this phenomenon is still facing an early stage. (Crescione, 2013).

Minimum criteria for an investment to be considered ethical have not been clearly defined, neither in more advanced countries. (Crescione, 2013). As a consequence, around the terminology "ethical" investment some uncertainty remains. Qualification of what is ethical or socially responsible and the choice of whether or not to use those criteria is being left to the directors of the companies or financial

[1] Rupert Jones is the deputy editor of the Guardian's money section.
[2] The article where this extract has been taken from presents a political debate about the exemption from the Tobin Tax as a possible incentive to boost socially responsible investment in Italy.

institutions, along with their perception of the materiality of ethical issues on the business (Eurosif, 2012).

The scenario introduced above represents the background on which my research has been developed. I engaged in this dissertation with more than one objective. The first one was to define what can be considered ethical in the investment funds' sector and establishing then the minimum criteria required for a non-ambiguous interpretation. To accomplish this task I will draw from the European experience, to provide a clear definition of ethical investment and show how this sector evolved in Europe and in Italy, a country that is still far from having established practices and incentives to the development. More interestingly then, I will be able to focus on the role of institutional investors in both these markets, highlighting four possible reasons behind the Italian delay. I will use an approach of "building blocks", that will allow me to make an overview of the sector and build at the same time specific knowledge about asset management companies and ethical investment funds.

After this phase I will have all the elements for the presentation of the case study of Etica SGR, an Italian asset management inspired by ethical motivations, that will allow me to focus the attention on a relevant organizational aspect of companies moved by the same principles. The conclusions that I will derive could suggest a possible strategy to increase the performance, useful for similar organizations that are going through a growing stage, a phase of the business cycle that represents a gap in the modern literature on hybrid organizations.

2. LITERATURE REVIEW

Over the last thirty years, organizations have increasingly challenged long-standing boundaries between the social and business sectors. (Dees & Anderson, 2003; Emerson, 2003; Westall, 2009). Corporations have faced increased public pressure to address societal problems (Margolis & Walsh, 2003; Kanter, 2009), leading to the adoption of behaviors meant to fulfill their perceived social responsibility (Carroll, 1999; Lev, Petrovits & Radhakrishnan, 2010).

In this context, financial operators such as investment banks or asset management companies started to develop financial instruments that give the possibility to investors to pursue some social issues along with financial returns. Nowadays is very common to find among the offer of major asset management companies, products that aim to finance businesses that take care of environmentally, social or governance issues. What is still not clearly defined is a threshold that distinguishes between traditional and ethical investments that does not rely only on directors of companies or financial institutions. In order to set this limit, a first research question should be raised:

Research Question 1: is there a clear definition of ethical investment and how this sector developed in Europe and in Italy?

In order to answer this question I made an overview on the ethical investing sector and then showed how it is working in areas in which it has gained legitimacy and areas in which its development is still delayed.

Through this approach it was possible to observe that the sector in the European market evolved following different paths and in some cases it is possible to find asset management companies that have funds inspired by ethical principles as their main source of revenues, and have a stated mission that is extremely consistent with the same social values that inspire their investments[3]. In these cases it is possible to refer to what the modern literature classifies with the term "hybrid organizations", that are entities that combine multiple institutional logics (Battilana & Lee, 2014), where institutional logics are defined as unique organizing principles, practices, and symbols that influence individual and organizational behavior. These organizations pursue a social mission while engaging in commercial activities that sustain their operations (Mair,2010; Dees, 2001). In hybrid conditions, each institution differently shapes how reasoning takes place and how rationality is perceived and experienced (Thornton, Ocasio, Lonsbury, 2012). In this dissertation I will refer to a particular kind of hybrid organizations: asset management companies that promote mainly or exclusively ethical funds, combining financial analysis and typical asset allocation techniques with sustainability analysis concerned with the positive social impact of the resources invested (so called "Impact Investing").[4]

[3] e.g. Triodos Investment Management's mission: *"our mission is to make money work for positive and sustainable change. More specifically, our aim as an investor is to serve as a catalyst in the transition to an economy where planet and people come first. Triodos is a globally recognized leader in Ethical Investing."*

[4] This business emerged and is expected to reach as much as one trillion dollars of invested capital by the year 2020 (O' Donahoe et. Al., 2010).

For this particular type of hybrid organizations, sustainability depends both on the advancement of their social mission and on their financial performance (Galaskiewicz & Barringer, 2012; Besharov & Smith, forthcoming), even if these may appear sometimes antithetical. In effect, these asset management combine the social and the financial logics that are still strongly considered incompatible in such a way that their cooperation is perceived odd or inefficient. Battilana and Dorado in 2010 for example documented the case of BancoSol, a microfinance bank operating in Bolivia, and observed that because of conflicting cultures and competencies, employees with a social worker background and those with a banking background came often into tensions that were dangerous for the survival of the organization.

In certain cases, these tensions may be detrimental to the achievement of the social mission and establishment of organizational legitimacy. Relationships among conflicting natures may in fact violate the boundaries of the established institutional logics of business and ethics principles (Zuckerman, 1999; Ruef & Patterson, 2009). The perceived distance of the logics combined or, more importantly, the amount of resources they require to accomplish their different objectives may affect the degree to which hybrid organizations experience tensions (Battilana & Lee, 2014). In practical terms, this means that in presence of environments in which competing logics coexist bearing a social mission, social activities that create positive social impact without creating competing resource demand, provide strategic and sustainable advantage.

Tensions are able to restrain effectiveness and reduce the social impact of the hybrid organization because of organizational misalignment of the coexisting logics, but they are also likely to provoke different outcomes. Research has shown that tensions and potential conflicts among logics might abate as one logic gains dominance over others (Selznick, 1949) thereby suggesting that new types of hybrid organizations, as ethical asset management, are highly unstable and unlikely to retain their hybrid nature over time (Scott & Meyer, 1991). In the absence of institutional scripts to handle logic plurality, new types of hybrids need to develop a common organizational identity that enables organization members to strike a balance between the combined logics (Battilana & Dorado, 2010). When there is a lack of balance and one of the two is favored at the expense of the other, the organization runs the risk of drifting from the mission (Christen & Drake, 2002; Weisbrod, 2004; Jones, 2007; Mersland & Strøm, 2010; Haight, 2011; Ben-

Ner, 2002) or to excessively stick to it, dangerously leaving economic sustainability aside.

Tensions between the business and social forms manifest both externally, in managing relations with the bifurcated organizational environment, and internally, in managing organizational identity, resource allocation and decision making (Battilana & Lee, 2014). Challenges coming from the external environment are due to the role of institutionalized forms in the conferral of legitimacy and resources. Legitimacy is in fact granted to organizations that fit institutional expectations, and resources are frequently awarded on this basis (Kraatz & Block, 2008). Challenges coming from internal tension are linked to the creation of a common sense of hybrid identity among organizational members, which is particularly challenging when the organization combines social and business aspects at its core (Battilana & Dorado, 2010). Even on a single operator's level, when individual organizational members have identities that align disproportionately with either the business or social form, increased demands from the other can activate organizational identity threat and raise latent differences into direct interpersonal conflict (Glynn,2000).

A specific type of internal tensions may rise due to the specific business of ethical asset management. Financial outcomes such as returns, profits, and costs can easily be measured in the short term, whereas social mission outcomes such as reducing pollution, increasing literacy, or overcoming economic injustice, often require a long time horizon (Hoffman, Badiane, & Haigh, 2010). These tensions may not only have a reflection on the temporal orientation of the organization, but also on the overall performance itself. It is arguable that social enterprises that embed within the boundaries of one organization multiple and inconsistent goals, norms, and values, may create contradictory prescriptions for action (Besharov & Smith, 2013) and generate ethical dilemmas (Dees, 2012; Margolis and Walsh, 2003), affecting social or economic performance. In some extreme cases it is possible that the same goal can simultaneously be a success in one domain and failure in the other (Smith, Gonin, Besharov, 2013). Systems that measure performance on both business and social dimensions are thus important design factors of hybrid organizations, offering a mean by which aligning the incentives of organization members with an objective function that reflects multiple organizational goals (Battilana & Lee, 2014).

Research has recently showed that even though the logics at the base may have contradictory philosophies, in practice they can coexist and enhance one another (Canales, 2013). Previous scholars' works indicate that the tension resulting from the coexistence of the two logics can be especially productive for service-oriented organizations, but only if explicit structures are established to ensure that they remain in productive balance (Canales, 2013). This creates a tendency for organizational models to display internal coherence, where the organization features, control systems, and culture all reinforce each other and create stable and distinct path dependencies (Baron et al. 1996, 2001). Then, once these forms are widely adopted by organizations in a field of activity, they gain social legitimacy and become institutionalized; in other terms the pattern of organizing they prescribe becomes taken-for-granted within this field of activity (Douglas, 1986).

The main purpose of my dissertation is to understand from a real case how is possible to manage this logics plurality in order to get the benefits of the coexistence limiting at the same time the emerging of tensions. I will do it following a literature that already addressed start-ups and mature organizations, moving then toward the observation of an organization in a different stage. The academic literature that I used aims to generate prescriptions for new forms of hybrid organizations for which "ready-to-wear" models for handling tensions do not exist yet. In particular, Battilana and Dorado's 2010 research on newly established hybrid organizations, addressed the human resources area as critical in this sense. They observed that in order to maintain their hybrid nature, start-ups need to develop a common organizational identity that strikes a balance between the combined logics. To achieve this result in less mature organizations, strategies that aim to build organizational identity through socialization of individuals not steeped in either of the logics combined are more effective than those that mix people carrying the logics that the organization is attempting to combine.

Then, about mature hybrid organizations, previous research observed that is possible to build and maintain hybrid nature even combining multiple conflicting logics carried by sub-groups within the organization (Albert & Whetten, 1985; Pratt & Foreman, 2000). It may thus be that once they have become established, hybrid organizations can afford to have multiple organizational identities without jeopardizing their stability (Battilana & Dorado, 2010).

Interestingly, what I observed with my research is that, in fact, an effective balance between financial and social logics can be maintained combining multiple conflicting identities even in a less mature organization operating in a market, the Italian one, that is still far from having regulated and established models. At the end of my dissertation I will be able to answer the following question:

Research Question 2: how is it possible to manage the co-existence of multiple logics even in a growing stage organization?

To answer this second question, I will present a case study, Etica SGR, the only organization in Italy that creates and promotes exclusively socially responsible funds (Independent Advisor 2, Etica SGR). The particularity of the case stands in the fact that Etica is still a growing organization, so in a stage of the business life cycle not yet deeply addressed by the modern literature. Through this study, I will be able to present the challenges that the sector is facing in Italy and the solution that this pioneer company is implementing in order to manage internal tensions and build a solid reputation.

3. METHODOLOGY

3.1 Research and design setting

This paper is a qualitative analysis that adopts an inductive research design (Eisenhardt, 1989; Gioia, Corley & Hamilton, 2013). I approached the first research question is using a review over the modern professional studies and researches on social investing. This part began with the collection of some key specialized reports that were used to build a "references web" that conferred depth to the analysis. Following, a deep review over the modern literature on hybrid organizations was useful to approach the second research question to which I answered using the case study of an Italian company. This approach was useful in order to build hypotheses over the underlying dynamics of the Italian sector from one of the major players. I chose this organization for three reasons. The first is that the Italian sector is underdeveloped if compared to Europe, and this fact drove my curiosity toward the reasons of this delay. The second is that it is embedded in the Italian context, so more easily reachable with my net of contacts. The third is because it is the only organization in Italy that uniquely creates and promotes socially responsible funds, so exactly matches the typology of organization that this study aims to address.

This organization allowed me enough access to their internal data to develop theoretical constructs. Thanks to this insight, I had the possibility to observe the aspects that are at the base of the findings of the dissertation.

3.2 Data collection

In the initial phase of the research, I collected information about asset management and the ethical investment sector in Europe and in Italy. The overview over the sector of ethical investment comes from publicly available reviews (e.g. Vigeo, 2013, Eurosif, 2012), sector studies (e.g. UNEP-FI, 2007), and statistics (e.g. Efama, 2013). I built the theoretical frame on hybrid organizations through academic research, mainly articles and books. Then I collected data through interactions with external stakeholders, that gave me a more precise description of the Italian sector and the challenges that it is facing. Finally, in order to address the second research question, I collected data in collaboration with internal stakeholders of the organization. Their contribution has been fundamental in order to understand the specificities of the organization that represents the focus of my dissertation. Thanks to this interaction I have been able to confront the single case study with the literature and to point out similarities and differences. In total I conducted and recorded 10 interviews, each lasting between 30 and 60 minutes, for a total of 6 hours. I interviewed professionals working in the ethical investment sector, managers and advisors of the board of Etica SGR and academics specialized in social investing. Such a variance of sources of information has enabled me to make data triangulation, thus enhancing the reliability of the findings (Yin, 1994).

3.3 Structure of the interviews and data analysis

With information collected from managers of communication and marketing areas I was able to have a broad vision over the sector and go through strategies that the organization adopted in the past. With the interview collected from advisors of the board of directors I had more detailed information over structural elements and characteristics of the investments. The initial structure of the interviews was focused on my research question, but then the questions were adapted to the single interlocutor as the research progressed and as key theoretical constructs emerged (Gioia et al., 2013).

During the interviews I had two main concerns: firstly, collecting as much information as possible in order to be able to observe connections or dissimilarities between the academic theory and the organization. Secondly, to distinguish between idiosyncratic (Eisenhardt, 1989) elements of the organization and common elements among organizations operating in the sector.

My approach was inductive: I entered the field without formulating any hypothesis, and I built the theory from categories and themes as they emerged from the ground up, anchoring them to extant theory only at an advanced stage of the analysis (Gioia et al., 2013; Jay, 2013). Then I used the relevant literature to refine my emerging theoretical arguments (Gioia et al. 2013; Strauss & Corbin, 1990). Following this process, I was to observe particularities linked to the organization and to raise hypotheses for the differences emerged. This approach was particularly important to formulate hypotheses that can be generalized, that is the aim of this thesis.

4. RESEARCH CONTEXT: BUILDING BLOCKS OF AN ETHICAL ASSET MANAGEMENT

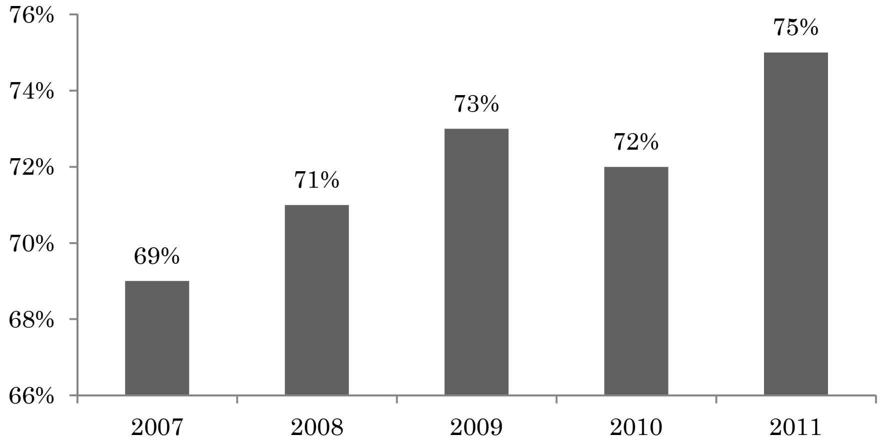
4.1 Investment funds and asset management

Investment funds are financial entities that represent a supply of capital belonging to numerous investors that is used to collectively purchase securities while each investor retains ownership and control of his own shares (Investopedia, Investment Fund). They are managed by asset management companies, intermediaries that represent a bridging entity between investors and recipients. Their core business in fact is producing financial returns through investments while managing risk according to investors' risk profile. The main indicator related to asset management is Assets Under Management (AUM), that represents the size of the total amount invested in assets. As a measure AUM is particularly important because besides giving information about the dimension of the funds, it is also an indicator linked to the revenues. In fact, usually a consistent part of the revenues of an asset management investment fund are composed by Management fees that are established as a percentage of the AUM.

In order to make a classification of funds, some distinctions may be done looking to investor's and recipient's side. From the investors' point of view a possible distinction is based on collection schemes, while from the recipient's point of view, an adequate classification is based on the type of securities selected in the fund. These, however, are interlinked because the investment is a characteristic of the fund that is likely to determine the type of investors that will entrust it.

Collection schemes are mainly of two types: retail collection in which small investors (e.g. households) invest a small amount of resources each, and collection from institutional investors (e.g. banks, pension funds, insurance companies), that are able to move a larger amount of resources per single transaction. Different investment funds have different prevailing collection schemes and the proportion between retail and institutional investors may depend on multiple factors. Exhibit 1 shows at an aggregate level the proportion in Europe between 2007 and 2011.

Exhibit 1: Share of institutional clients (Efama, 2012)



On the other side, the classification in terms of types of securities, can be made as follows:

i. money market funds, that invest in short-term high-quality securities such as short term backed securities and currencies;

ii. bond or fixed income funds, that invest mainly in long-term government and corporate debt;

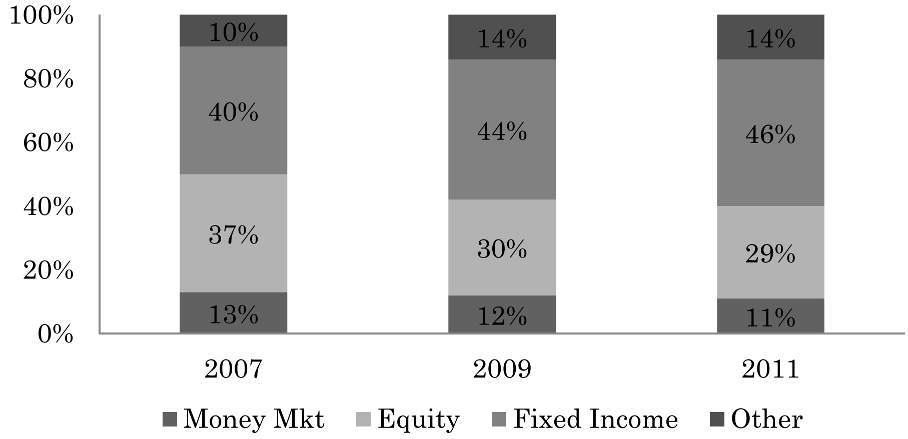
iii. stock or equity funds, the largest category of investment funds, that invest mainly in corporate equity;

iv. mixed funds, that invest both in equity and debt.

Depending on the type of investment set up by the fund manager, there are different risk and temporal configurations and different investors choose the one that they prefer according to their risk aversion factors or business cycle's length.

With Exhibit 2 is possible to have an overview over the European market from 2007 to 2011. The percentages indicate how European investments funds allocated their collection in order to form different asset mixes along four years. Interesting to notice that in this timeframe affected by the 2008 financial crisis, equity allocation has reduced in favor of an increase of 6% of fixed income allocation, indicating a shift to a lower risk profile investments.

Exhibit 2: Investment funds typology breakdown (% breakdown in terms of AUM, end of the year)



It is also possible to observe investment funds under an alternative perspective that is according to their investment scheme. Under this point of view, the principal types of investment funds are open-end funds and closed-end funds. Open-end mutual funds must be willing to issue and buy back their shares from their investors at any time, at a value that reflects the Net Asset Value[5] (NAV) computed that day. The total investment in the fund will vary based on share purchases, share redemptions and fluctuation in market valuation. There is no legal limit on the number of shares that can be issued. In closed-end funds this is not possible since they have a fixed number of shares that can be sold and purchased only on the market at the relative market values.

Thanks to the relationship that are able to build with investors, characterized by lower commitment and higher flexibility, open-end funds are the most common type of investment funds and the scheme that best suits the type of investment that this dissertations aims to describe (ethical investment). Open-end funds are available in most developed countries, under different juridical schemes and names, but presenting similar functioning.

4.2 Sustainable and responsible investment

Ethical investment is a combination of words that only provides a suggestion on what this dissertation aims to talk about. From this point on, it is necessary to use terms that are more precise and reflect more the direction that this sector is taking

[5] Net Asset Value is the value of an asset less the value of its liabilities.

thanks to the effort of European professional operators, regulators and academics. The definition that nowadays represents the standard for professionals and academics in fact is Sustainable and Responsible Investment (SRI), that refers to any investment strategy which seeks to consider both financial return and social good.

After a building process started on 2003 and still going on, one of the most updated definitions of Sustainable and Responsible Investment has been established from Eurosif[6] in collaboration with Pan-European industry experts, on 2012 bi-annual report "European SRI Study". It is a very complex definition that instead of explaining the meaning of the terms, defines punctually the boundaries of action, among which an investment can be considered sustainable and responsible. It consists of seven processes representing the strategies used by asset managers that incorporate sustainability and responsibility into their investment decisions using Environmental, Social and Governance (ESG)[7] criteria (Eurosif, 2012), and these are:

i. Sustainability themed Investment (directed toward themes or assets linked to the development of sustainability);
ii. Integration of ESG factors in financial analysis (Environmental, Social and Governance);
iii. Norms-based screening (toward investment that comply with international standards and norms);
iv. Exclusion of holdings from investment universe (forbids the investment toward companies, sectors and countries excluded from an ideal investment universe of SRI complying operators);
v. Best-in-Class investment selection (toward the best ranked organizations according to ESG criteria);
vi. Engagement and voting on sustainability matters (engagement activities on ESG matters and active security ownership);

[6] Eurosif (European Sustainable Investment Forum) is an European association whose mission is to develop sustainability through European financial market. Eurosif acts as a partnership of the national Sustainable Investment Forums (SIFs) within the EU and with the support and involvement of Member Affiliates. The five initial SIF that founded Eurosif in 2001 are from France, Germany, Italy, The Netherlands and the UK.
[7] The three main areas of concern that have been developed as central factors in measuring the sustainability and ethical impact of an investment in a company or business.

vii. Impact investment (toward the generation of social and environmental impact alongside a financial return).

Besides this definition, it is necessary to highlight how SRI is a concept that continues to evolve as both well established and newer asset managers develop new methods and approaches on the valuation and incorporation of ESG issues into fund management. *"The terms "social", "ethical", "responsible", "socially responsible" and "sustainable" and others are used in a multitude of overlapping and competing ways to approach the SRI field. It is this richness of different views that challenges the investors to perfectly define and categorize an area that is not easily "boxed in" "* (Eurosif, 2011).

4.3 Investment strategies

SRI investing translates into a range of strategies that investment funds carry out according to their core activity or level of involvement into the community in which they operate. Under a technical perspective, SRI can be linked to three investment strategies.

The first is carried out by funds that act as mere risk managers and asset management advisors and consists of portfolio selection (or "screening"). It consists of the inclusion or exclusion from the portfolio of shares chosen on the base of the ESG-complying behavior of their issuers (Verzaro, 2013). Selection criteria may be used in a negative way (negative screening) to exclude from the portfolio those companies that don't comply with them, or in a positive way (positive screening) to select shares of companies that, on the other side, comply on different levels. These two processes are complementary and consequential. Negative screening criteria ensures that investments will not be directed toward industries such as weapons, tobacco, nuclear energy and activities damaging human rights. Positive screening has the role to strengthen the criteria, directing investments toward organizations or countries that not only passed the first screening but excel in environmental, social and governance parameters. Examples of positive screening are companies that excel in energy savings or in reduced environmental footprint.

The second strategy is shareholder engagement or shareholder activism. It involves funds that have a more active behavior and has as objective to use the financial investment to induce the recipient to comply to some sustainable and responsible behaviors through different types of pressure, ranging from the simple informative activities, to the direct contact with the management, until the exercise of the rights given by the possession of the shares of the company. As an example, the fund's operators can advise boards of directors and management of a company to modify working conditions among their employees in order to implement practices that better respect their rights.

At last, the third strategy consists directly of support and local development (community investing), providing financial backing or advisory activity to social initiatives correlated to the local development. A famous example of community investing is microfinance that focuses on social improvements in developing countries.

4.4 SRI sector in Europe

> *After the financial crisis, the awareness toward SRI investments especially in public opinion and policy makers has increased. They began to consider the opportunities offered by an enlarged vision on investment strategies: traditional risk management principles were no longer sufficient and did not adequately explain the complexity of today's business environment.*

Fouad Benseddik, 2013[8]

> *Retail SRIs nowadays defend and increase their market share and their assets, in some countries it represents a relevant portion of the national asset management industry. Alone it does not suffice to affirm that the investors' mindset is completely changed – the contribution of asset owners, like pension funds, is fundamental in these terms – but figures and the debates, allow us to look to the future and have reasonable hope of a more conscious approach to finance.*

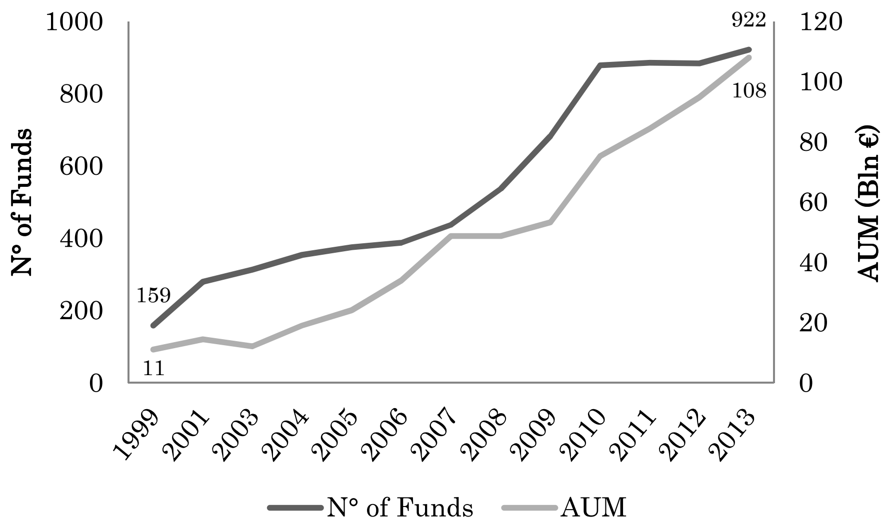
Fouad Benseddik, 2013

The words of the Director of Methodology and Institutional Relationships at Vigeo, the leading extra-financial analysis European company, highlight that both offer and demand are slowly aligning to a new trend of social responsibility. To be able

[8] Director of Methodology and Institutional Relationships at Vigeo.

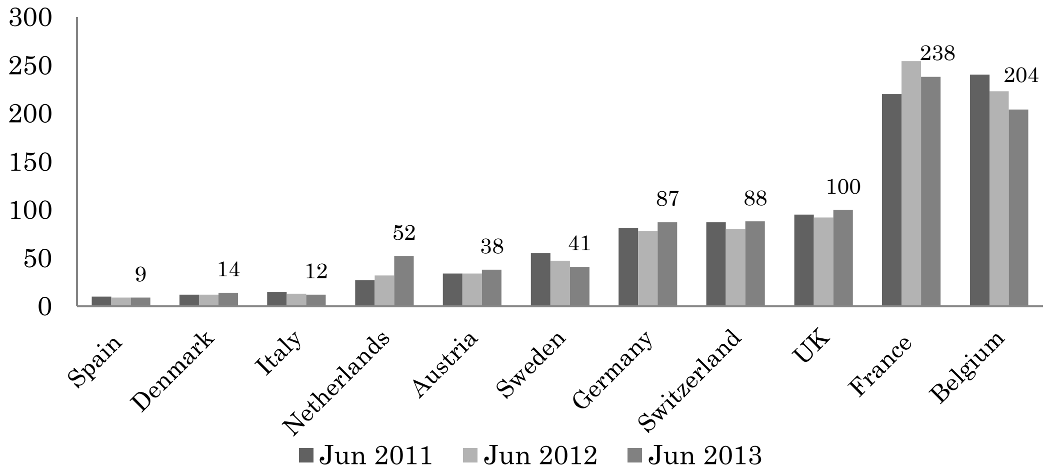
to understand this phenomenon then it is necessary to build some specific knowledge about the sector and on the players that contribute to the definition and the development of this business. As Exhibit 3 shows, the European SRI retail funds market has continued to grow, as were at June 2013 € 108 billion within 922 funds. Retail SRI however is still a niche with only1.7% of the total European AUM by Investment funds (Vigeo, 2013).

Exhibit 3: number of SRI European retail funds cumulated, and total AUM (in Bln €) for SRI retail funds in the period 1999 to 2013 (on June 30, 2013)



It must be taken into consideration that talking about SRI investing in Europe, means talking in particular about a part of the member countries that are France, Belgium, UK, Switzerland and Germany with a smaller contribution from northern and southern European countries (as will be following shown in Exhibit 4). These are the most representative players both in terms of number of funds present and operating on the territory and for Assets Under Management and this result is revealing that across Europe this sector is characterized by different levels of maturity of national industries.

Exhibit 4: number of SRI retail funds in each country (on June, 30 2013)



In 2013, France confirmed its leading market position for retail SRI, being present a virtuous cycle triggered by the alignment between a favorable legislation[9], innovation efforts and assets managers' awareness of the potential of SRI investing. Belgium and the Netherlands have seen, in the last years, impressive growth of their domestic markets. These results may have been achieved thanks also to legislative regulations[10] with the aim of affecting directly or indirectly the SRI European market. Concerns among leading European countries have been about informational policy instruments requiring disclosure of SRI policies, proxy voting, taxation incentives for responsible investment, environmental liability of lenders and investment mandates or restrictions (Richardson, 2009). Even if the most extensive SRI-directed policy reforms have been adopted especially for the pension fund sector (Richardson, 2009). Most SRI regulation, however, has involved light-touch controls that left significant discretion to financiers and led to limited impact in changing the behavior of financial markets (Richardson, 2009). In

[9] Two laws concerning SRI and pension systems have been introduced, one shortly after the other in France in 2001. Both have been inspired by the British example. The UK has become a world centre for sustainable and responsible finance, with a growing reputation for developing and hosting catalytic initiatives. British SRI-disclosure regulation came into force on July 3rd, 2000. This regulation was pushed both by the desire to enhance consumer protection and the intention to clarify the legality of SRI-oriented pensions investment policies. Consumer protection as well as the desire to strengthen SRI-investments were the main reasons for the legislation. (BELSIF, http://www.belsif.be/default.aspx?page_id=715).

[10] As for the French and the German case, in Belgium the law has been inspired by the British model. The main reasoning behind the law was the wish to strengthen a sustainable development of the Belgium economy and to enlarge SRI investments. The law requires the pension funds to write in their annual reports in how far social, environmental and ethical issues are taken into account in the investment strategy. (BELSIF, http://www.belsif.be/default.aspx?page_id=715)

this regulatory context, United Kingdom and Nordic countries are solid markets, where SRI issues are culturally understood and integrated in mainstream investment strategies; Italy and Spain are still the tail-end when comparing them to other European countries. In these last cases, but in general on the whole European market, public awareness still needs to be enlarged toward SRI investments' challenges and potential advantages.

However, from the perspectives of Assets Under Management and number of SRI funds, the phenomenon indicates that the expansion that took place in the past fourteen years still maintains potential in both dimensions. The way it developed in French-speaking countries and UK is the signal that in these countries there have been both understanding of the importance of this type of commitment and acceptance of the outcome that this is able to foster.

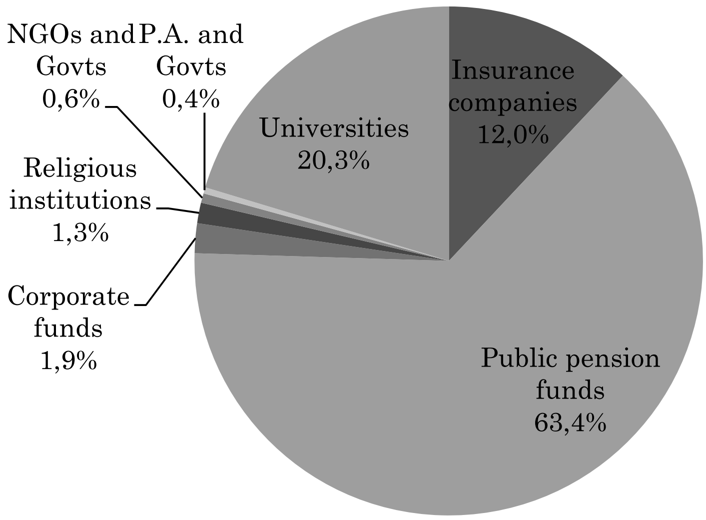
4.5 Role of institutional investors in the European market

An important role in both traditional and ethical asset management is played by institutional investors. The major affluence of funds directed toward the sector is coming from collecting institutions such as banks, insurance companies and pension funds. These pillars represent the real engine of the SRI development and of the regular asset management functioning. Institutional investors, in fact, accounted for 75% of total European AUM in 2011, with retail clients accounting for the remaining 25%. (Efama, 2013). Institutional investors often act as financial intermediaries and channel the investments of retail clients to asset managers. Since 2007 institutional clients have been gradually increasing their share of the market, even throughout the financial crisis.

These three pillars account for a significant share of the institutional client segments through their ownership of unit-linked products offered by insurance companies, and defined contribution schemes offered by pension funds (Efama, 2013). Over the past decade households have increasingly allocated funds toward retirement savings products. This shift supports the idea that households are increasingly relying on pension funds and insurance companies for their long-term savings/retirement goals. This tendency has increased since 2007 when 28% of household's financial assets were invested in retirement savings. By 2011, this had increased to 32%.

These dynamics led to a scenario in which pension funds are playing the biggest role in the SRI sector development, as shown in Exhibit 5:

Exhibit 5: Institutional investors involved in SRI by categories in Europe (Eurosif, 2010)



It is possible to identify at least two aspects that seem to make SRI criteria particularly suitable for matching the requirements of pension funds. For their social orientation, perfectly consistent with the nature and objectives of the pension funds and for their non-speculative character, naturally oriented toward the long run. (Verzaro, 2013)

4.6 Role of institutional investors in the Italian market

SRI sector in Italy is paying a delay, and the reasons behind it are several. Some of them are linked to the historical development of the institutional demand for SRI investments in the country, others are due to barriers of different types. Institutional investors in Italy did not have the same relevant role in the development of SRI sector that they had in the Best-in-class European countries. In fact, differently from other European countries, the demand for socially responsible investments in Italy was initially represented by retail investors instead of coming from the institutional segment (Marketing and Communication Responsible, Etica SGR). In the last years, the situation started to change thanks to the approach of some institutional investors essentially represented by pension funds. These are now progressively increasing their interest toward SRI and are playing a role in the development of the Italian market: since 2010 in fact they increasingly included SRI in their investment strategies and mandates (Eurosif, 2011)

The barriers that are slowing the growth of the SRI investment sector have been well resumed by some Italian researchers in the article "Gli Investimenti Etici dei Fondi Pensione Italiani", contained in the book "Ethical Investments of Pension Funds"[11]. According to them the reasons of the gap belong to the following categories:

i. legal barriers;
ii. cultural barriers;
iii. structural limits of the social security sector;
iv. political and organizational barriers.

Legal barriers are represented by those gaps in the legislation that do not allow a clear understanding of the field of belonging of the SRI agents beside a lack of incentives toward their form of investment.

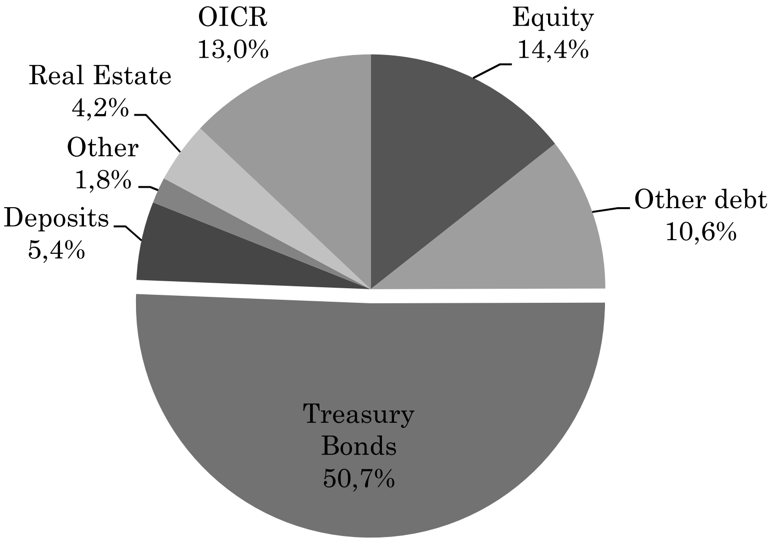
Cultural barriers are related mainly with the demand side and cannot be undervalued. Institutional investors are still reluctant to see in SRI a strategic driver for recovering their industry. Boards of directors, consultants, managers and promoters are still reluctant to assume the direct risk and responsibility for undertaking ESG inspired investments (Dal Maso, 2010). This is mainly because SRI investment are still surrounded by diffused biases and a superficial knowledge of the topic that do not allow a correct understanding of the contribution to the performance and better risk management that SRI filters are able to provide (Bocchialini, Ielasi, Ronchini, 2013).

Structural limits consist in the fact that in Italy households are still relying heavily on national social security sector, so that complementary systems represented by pension funds remain subscribed by a minor part of independent workers. As a result of this, the sector is still young and under-developed (in comparison to northern Europe countries for example) so that operators are still lacking in experience regarding strategic decisions and management of the resources, whose destination toward innovation is strongly limited (Luzi, 2010). To support this statement Exhibit 6 is presenting the Italian scenario at the end of 2012, indicating

[11] Bocchialini, E., Ielasi, F., Ronchini B., 2013. "Gli Investimenti Etici dei Fondi Pensione Italiani". In C. Cacciamani (Eds.), "Gli Investimenti Etici dei Fondi Pensione". Egea.

that asset management is strongly relying on Treasury bonds instead of other more flexible and innovation driven securities.

Exhibit 6: Diversification of the resources managed by Pension Funds in Italy at the end of 2012 (Covip[12], 2013)



Last but not less important, lack of knowledge about potential benefits of the application of ESG criteria derives also from the weak political debate about SRI related topics. The common opinion is that SRI investing asks for renounces in terms of returns and that might be barely impossible to monitor the ethical behavior of the companies. This lack may be at the base of the poor results that in 2012 SRI sector was facing in Italy about retail collection. In fact, retail investment in SRI was around 0,26% of the total investment in SRI, compared to a European average of 6% (Eurosif, 2012).

Concluding, it is impossible not to assume that the elimination of these barriers and increased interest from pension funds would be a stimulus for a broader part of the Italian financial market. Thanks to the large amount of resources they are able to move, they might have the power to set the path for the integration of these criteria into the traditional financial analysis (Borsa Italiana, 2011).

[12] Italian Authority that monitor Pension Funds sector.

5. CASE STUDY: ETICA SGR

In the Italian jurisprudence, SGRs (Società di Gestione del Risparmio) are entities created for the management of savings, that gather the amounts deposited by a large number of money savers and invest them, like an indistinct capital, in listed financial activities, such as stocks, corporate bonds, treasury bonds, etc., following determined rules that have the duty of limiting the risk on investments.

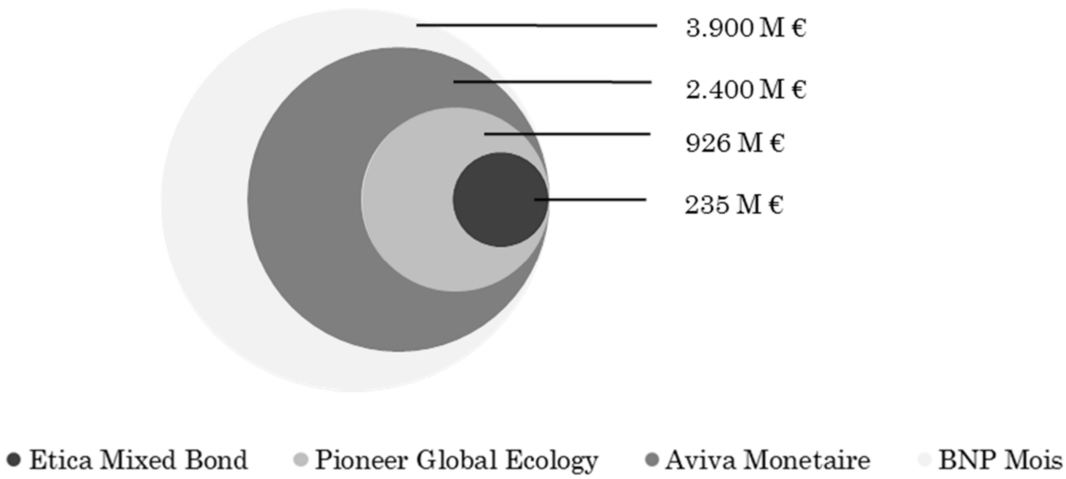
Etica is an SGR founded in 2000 under the initiative of "Banca Popolare Etica" and "Banca Popolare di Milano" two Italian banks, but started operating only in 2003. It was founded to pursue a social objective that is clearly stated in the mission:

> *"Its objective is to create and promote socially responsible investment funds in order to represent the values of ethic finance in the financial markets, making public and financial operators aware of socially responsible investments and Corporate Social Responsibility"*

- Art. 5 Articles of Association, Etica SGR

Etica is the only Italian financial operator that creates and promotes exclusively socially responsible funds (Independent Advisor 2, Etica SGR). The sector of socially responsible investments in the last ten years had an impressive growth in Europe and Etica followed the same trend. At the end of 2013 it had 783 million Euro in Assets Under Management, growing by 55% from 2012. Considering that in the same year the Italian sector had in total 2,3 billion Euro in AUM, Etica was the owner of about 34% of the market share. However, contextualizing these numbers in the European area, it is quickly noticeable that it still has to grow in size in order to cover a relevant position in this broader market. The biggest fund that Etica promotes, at the end of 2013 included assets for 235 million Euro. Exhibit 7 compares its size with that of SRI funds embedded in the offer of bigger asset management companies in Italy and in Europe, so that is possible to recognize its lower magnitude.

Exhibit 7: Relative dimensions of Etica's Mixed Bond and some of the biggest European SRI funds (Vigeo, 2013)



The biggest SRI retail fund in Italy for example is the "Pioneer FDS Global Ecology" (Vigeo, 2013), promoted by the global player Pioneer Investments, that holds assets for 926 million Euro, while the three biggest in Europe are promoted by traditional financial institutions (mainly banks and insurance companies) and include asset respectively for 3,9 billion Euro, 2,4 billion Euro and 2,23 billion Euro[13], matching or even exceeding the entire Italian SRI market.

Etica started operating in 2003, and until today it went through a market penetration process, establishing its position among market leaders. Following the classification made in a recent edition of Grant and Jordan's "Foundations of Strategy" Etica has already passed the introduction stage because the customer base is starting to assume relevant size and the dimensions of the funds are assuming a relevant scale; it is not possible however to place it among the mature organizations because, according to the same source, the business is still developing in presence of a market that is far from being saturated. More indications on the stage of the company came from interviewing a member of the board:

> *For the past ten years we have been growing considerably, far beyond our expectations and strategic plans. Even today the growth is still continuing and we are approaching the psychological threshold of 1 Billion Euro of assets under management. [...] Until*

[13] The first fund is "BNP Paribas MOIS", offered by BNP Paribas, the second is "Aviva Monetaire ISR", offered by Aviva insurance company and the third is "Amundi Tout France", offered by Amundi Asset Management.

now we managed to develop and consolidate the structure, so that this year (2014) the board suggested to pay a dividend to shareholders for the first time.

- Interview with Independent Advisor 1, Etica SGR

The evident growing path and a dividend reinvestment policy, devoted until now to self-financed growth and consolidation, led me to consider Etica as a growing organization. At this stage, it stands in the middle between start-up and maturity, stages already addressed by academic research in the past. The findings of this research will contribute then to describe the behavior of hybrids in this stage, thus bridging an important gap in the neo-institutional literature, which, so far, has devoted its attention mainly to nascent (Battilana & Dorado, 2010; Tracey et al., 2011) or mature organizations (Canales, 2013) though keeping into account all the particularities of the case study.

5.1 The Product

Etica's offer is composed of four financial products and investors can choose among them depending on their risk aversion and time orientation. Its clients are mainly represented by strongly value-driven small households and organizations. All the funds are open-end mutual funds and are composed by a mix of equity and debt instruments in different proportions, all of them selected using a combination of positive and negative screening based on ESG criteria. They are named as follows:

i. "Etica Short-term bond" is a fund composed by 100% short term treasury bonds with duration until 2,5 years;
ii. "Etica Mixed bond" fund is composed by maximum 20% equity and bonds for the remaining percentage;
iii. "Etica Balanced" is composed by maximum 70% equity;

iv. "Etica Equity" is fully equity invested.

Short term bond is the fund characterized by lowest risk while equity by the highest. Mixed bond and balanced have an increasing level of risk. These characteristics of the funds are presented synthetically in Tables 1 and 2, in which I show some synthetic data and descriptive statistics. The returns have been computed over a timeframe of five years from 2009 until 2013, included. Data relative to the returns have been retrieved using monthly frequency.

Table 1: Types of funds and returns, years 2009-2013

	Type & Size		Yearly returns (%)						
FUND	Equity	Size (Mil €)[14]	2009	2010	2011	2012	2013	Avg. (%)[15]	St. dev. (%)
Short Term Bond	0%	160	1,83	0,56	1,20	2,1	1,2	1,39	1,00
Mixed Bond	Max 20%	329	5,49	4,99	0,94	5,7	3,4	4,11	2,16
Balanced	Max 70%	228	21,99	14,30	-8,32	11,6	13,1	10,57	8,92
Equity	100%	77	30,34	18,84	-14,60	14,1	21,3	14,03	14,37

- Source: Self-elaboration of Bloomberg data

Short term bond presents an annualized volatility of 1% over the past five years. Equity is the most risky, with annualized volatility around 14%. The higher the percentage of equity among the assets of the funds, the higher the volatility and the expected returns. This means that, exactly as it happens in traditional investing, risk lovers investors will choose to allocate their wealth in funds that have a higher percentage of equity, looking for higher returns while accepting the higher risk. On the contrary risk averse investors will opt for a more moderate combination of risk/return. Characteristic of all Etica's equity funds is that do not have speculative strategy so that bonds included in the funds are held for a period that goes from 2,5 to 5,5 years and stocks for even more than 5 years (Independent Advisor 3, Etica SGR). The reason is that this type of investment releases its potential in the medium-long term being the screening likely to lead the choice toward healthy growing business affected by lower extra-financial risk (Independent Advisor 2, Etica SGR).

5.2 The Structure

Stocks or bonds included in the four funds are result of negative and positive screening based on ESG criteria in order to ensure that the investment is socially responsible and sustainable. These two processes are complementary and consequential.

[14] Data refer to the end of 2013.

[15] Values reported refer to the annualized values of Mean and Variance

Negative screening criteria ensure that investments will not be directed toward industries such as weapons, tobacco, nuclear energy and activities damaging human rights. Positive screening has the role to strengthen the previous screening, directing investments toward organizations or countries that not only passed the first screening, but excel in environmental, social and governance parameters. Investing in these products leads to a double result for SRI investors: obtaining a return while having a positive social impact. In order to achieve this result Etica implements two main activities.

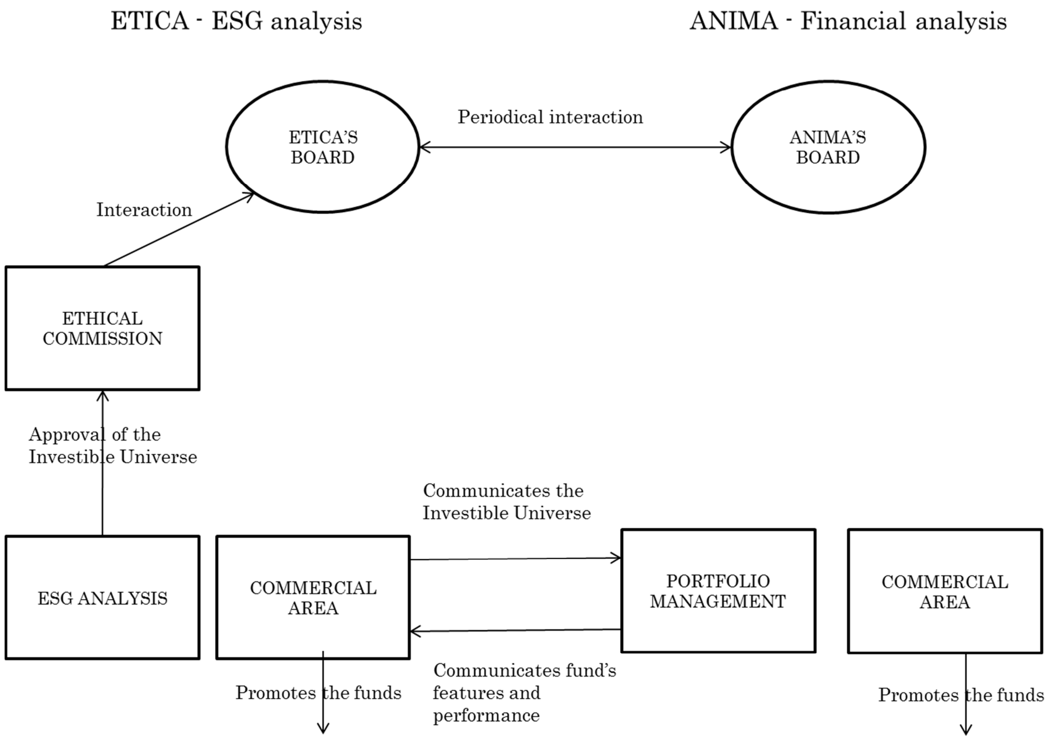
The first is extra-financial analysis, using ESG criteria for screening and evaluating companies. The second is asset management activity that includes asset allocation, portfolio management, periodical portfolio rebalancing and performance assessment. Etica is responsible for creating and promoting the funds, but for the financial management, it delegates to a partner that follows Etica since the foundation: Anima SGR. Anima is a listed Italian asset management, one of the main players in terms of size and performance track. It has 48 billion Euro of AUM, more than 100 distributing partners and about 1 million clients (Anima SGR, 2014). It is a traditional asset management that includes in its activities open-end funds, pension funds, hedge funds and wealth management. The final product promoted by Etica is then the result of this partnership and the equilibrium that during the years has been established between the two entities. Among them there is an effective interaction, but the independence of the two processes is a very important condition as emerged since the first interviews that were made:

> *The interaction is effective, but the division of two processes is quite bulletproof. It is possible that Anima could be interested in a specific share, but if it is not among the shares approved by Etica, it will not be considered at all. Until today never happened and never will happen in the future that Anima will influence the selection process.*

- Marketing and Communication Responsible, Etica SGR

The partnership works in a very simple way, as I show with Exhibit 8 below:

Exhibit 8: Interaction between Etica SGR and Anima SGR



Source: Self-elaboration

Etica's analysis area carries out ESG positive and negative screening using a mix of external advisory by the UK provider EIRIS Foundation and internal selection criteria.

The output of this analysis is a proposal over an Investible Universe, composed by a list of companies and countries that fulfill the selection criteria. This proposal is submitted to the evaluation of the Ethical Commission, composed by experts and professionals with heterogeneous backgrounds and to the approval of the board. When the investible universe is approved, its composition is communicated to Anima's portfolio management area that has the role of maximizing performance of the fund allocating resources only on the assets selected. Both social and economic performances then should be realized only among this investible universe. Once the fund is formed, commercial areas of both institutions promote the funds and sell them directly or through partner financial intermediaries. In terms of definition of the investible universe, the communication among the two organizations is one-sided, meaning that Anima respects Etica's choices and is not allowed to modify or suggest the securities to be included in the funds. Finally, the boards of the two institutions interact periodically in order to share results and set the future strategies.

This separation is at the base of the findings of my research, since part of the reasons that led Etica to establish and maintain along the years this structure are embedded in the literature on hybrid organizations. From the literature and the interviews conducted I could observe three main rationales behind this strict separation.

The first can be attributed to the internal tensions generated by a misalignment of cultures and competencies of the workers carriers of the two conflicting logics, both necessary to produce contemporarily social impact and financial sustainability.

The second can be linked to reputational threats linked to the composition of the investors of Etica, represented mainly by strongly value-driven retail clients.

Finally the third element can be related to a dimensional factor.

I will address them following this order.

5.3 The role of structure in the management of the tensions

The two logics that coexist in this organization have different and antithetic orientations. Etica's logic requires workers with a strong interest in the SRI market and passion for sustainability (socials)[16]. Anima's logic on the other side, requires strongly analytical and problem-solving oriented workers with good understanding of financial markets and financial background (financials)[17], not necessarily provided with knowledge on ESG principles. In both organizations there may be individuals belonging to a "grey area" between the two, like financials with sensitivity toward ESG issues or socials with a financial background, but in general the coexistence of such different institutional logics surrounding them is likely to lead to some elements of internal tension.

[16] To describe Etica's logic has been used as a representative "Sustainalytics", a European research firm specialized in ESG research and analysis. The requirements quoted above can be found among the qualifications required in order to cover an analyst role in the company. Available on http://www.sustainalytics.com/intern-15.
[17] To describe Anima's logic has been used as a representative "Blackrock", a global leader in asset management. The requirements quoted can be found among the most common qualifications required in order to cover any financial-side role in the company. Available on http://www.blackrock.com/corporate/en-pt/careers/job-search/emea.

In this sense the structure of Etica may become a response to the occurrence of these tensions. From an observation of the companies that operate in this sector in Europe I could recognize two different configurations: in the first one the two logics are integrated in the same structure, while in the second they work in two distinct structures. In the first case, the structure integrates financial and sector-specialized workers that collaborate within the same teams in order to set up the investment strategy. Good examples are represented by "Triodos Investment Management", "Alliance Trust Investments" and "Royal London Asset Management" that are asset managements that operate in Europe and have bigger dimensions in terms of AUM. ESG principles are integrated in their investment processes and they have teams that present integration of financial and ESG analysis like Triodos and teams that are going through a process of integration like Royal London Asset Management. Proof of these dynamics are transparently disclosed on their web pages:

> *"We think that successful impact investing requires more than mere financial expertise. The teams who manage our funds therefor also contain members with in-depth sector knowledge."*

- Triodos Investment Management, Investment Approach[18]

> *Looking ahead, as the sustainable team becomes fully integrated with RLAM (Royal London Asset Management), clients will be able to learn more about how our sustainable process helps to protect investment returns, mitigates risks to corporate reputation and value, and fulfills our goal of becoming a natural choice as an investor of good standing.*

- Royal London Asset Management, Responsible Investing

In the case of Triodos, a global leader in Impact Investing, the sectors in which they operate are many and diversified such as energy, climate, arts, culture and sustainable real estate and agriculture. This organization should be able to balance the trade-off between social and financial performance whenever it will emerge. Previous literature was able to justify this assumption showing that mature organizations have well established archetypal forms, thereby providing models to handle potential conflicts among logics (Greenwood & Hinings, 1993).

[18] All the detail on the Triodos' investment approach on: http://www.triodos.com/en/investment-management/impact-investment/investment-approach/

Differently, Etica maintains the two logics separated. The adoption of a clear structural division between the two organizations is functional to the reshaping of these tensions because eliminates the rise of any type of trade-off, allowing the two logics to focus exclusively on specific tasks. This division prevents to sacrifice fundamental principles linked to the ESG screening while pursuing financial opportunities (Independent Advisor 2, Etica SGR). In case a single mixed entity was in charge for screening and managing the funds, mediation would be required with a higher risk of preferring one dimension over the other (Independent Advisor 2, Etica SGR). "*Independence guarantees in this case freedom about decisions and commitment to the respective missions."* (Independent Advisor, Etica SGR)

In the young Italian market, characterized by a lack of culture on ESG themes (Bocchialini, Ielasi, Ronchini, 2013) and a strong ethical motivation (Independent Advisor 1, Etica SGR), this configuration is even more important to overcome reputational threats. Especially if the low awareness affects a broad public, from private to institutional investors. These threats rise when expectations of the public about the actions of entities participating in some institutional logics run the risk of not being satisfied. In the specific case of Etica, the risk is that its investments drift from the social mission, preferring financial performance. The choice of keeping the separation between the two logics is then an instrument to reassure the investor about the social commitment, and it is a way of defending the reputation of the organization (Marketing and Communication Responsible , Etica SGR). This is valid firstly for those value-driven households that represent the majority of the capitals invested, but also for other institutions that disregard classic financial instruments such as non-profit organization or social enterprises. In this sense, it is important to stress the fact that among Etica's retail investors and associates there are groups that sustain a concept of "ethical investment" that is far from the typical financial-market-based investment at the base of Etica's business, as emerged in one of the interviews:

> *Among shareholders there are some groups that support a more "radical" idea of investment that is closer to the concept of microcredit, so intended to finance in a direct way individuals, small businesses and non-profit organizations*
>
> - Independent Advisor 1, Etica SGR.

In order not to betray their trust incurring then into reputational threats, particular care should be paid toward these stakeholders. It is reasonable to assume that elements such as a non-speculative approach, integrity and a clear structural separation between financial and social areas may represent more than just an element of reassurance, but almost a necessary condition for them to support Etica's mission. An example of Etica's commitment to satisfy these stakeholders is the possibility given to subscribers of the funds to devolve a small percentage of the investment into microcredit activity in Italy with the objective of financing individuals not eligible for traditional bank credit, entrepreneurs and social oriented business (Etica SGR, webpage).

A further motivation to maintain the separation between social and financial is linked to a dimensional aspect. Although the impressive growth of the past ten years, it still remains a small organization that has maintained a lean cost structure in order to be able to self-finance the growth until this size (Independent Advisor 1, Etica SGR). The inclusion of a financial area would add costs to the structure and negatively influence the financial flexibility. As a consequence, in order to merge the two areas a critical size should be achieved. This size should allow to maintain acceptable profit margins even sustaining the costs related to both areas. The integration of a financial area would add in fact different types of costs. The first important increase would be due to personnel costs linked to financial experts working at different levels, from analysts until managers. The second relevant cost would be represented by information systems specific for the financial and risk management, tasks until now covered by Etica's financial partner (Independent Advisor 1, Etica SGR). The discussion about modifications in the structure is open in the board of Etica and arguments against and in favor emerged. Some board directors are strongly against the inclusion of a financial area. They argue that even when the critical dimension will be hit the two areas should remain separated. These are the most value-driven and the reasons for their position lie in the reputational threats that the merger could bring. Some other directors argue that when the critical mass will be reached the inclusion of the financial area will not bring any reputational threat to the company, bringing instead added value.

However, starting from this year a legal framework will help the board to overcome the discussion. This new regulation asks in fact promoters of socially responsible funds to concentrate in one organ all the activities related to the fund. The promoter will be compelled to set stricter rules for the active managers of the funds and a simple mandate as the one that regulates the relationship between Etica and Anima nowadays will be no longer sufficient. The effect of this new regulation will be then a partial integration of the financial management in the structure of Etica. The rationale of the regulation is to improve the risk management and to address eventual responsibility attribution (Independent Advisor 1, Etica SGR).

I would like to underline how this combination of internal conflicts, reputational threats and dimensional issues have never been found by previous literature and a discussion about this particular mix will be made in a conclusive phase of the dissertation. A major explanatory element is undoubtedly represented by specificities of the Italian market, still far from presenting the optimal conditions for the proliferations of ethical funds, but I will suggest as well that the growing stage in which this hybrid organization is passing by could be a key to interpret the findings.

Battilana and Dorado's 2010 research that focuses on newly established hybrid organizations suggested that at a start-up stage there is a need to develop a common organizational identity that strikes a balance between the combined logics in order to maintain the hybrid nature. Previous research suggested that in a mature stage, hybrid organizations are able to maintain their hybrid mature even combining multiple conflicting logics carried by sub-groups within the organization (Albert & Whetten, 1985; Pratt & Foreman, 2000).

I showed in this research how using the structure as an element to smooth tensions, organizations are able to develop themselves combining multiple conflicting logics even in a growing stage.

6. CONCLUSIONS

This dissertation addressed the sector of socially responsible investments funds with the objective of answering to two distinct research questions. The first, with a descriptive purpose, asks to provide a definition of ethical investment and show how this sector developed in Europe and in Italy.

Research Question 1: is there a clear definition of ethical investment and how this sector developed in Europe and in Italy?

What I discovered is that ethical investing is a definition that does not lead to a common understanding, but a wide set of perceptions. A more precise terminology to identify the sector that I address in this dissertation is Socially Responsible Investment (SRI), that refers to any investment strategy which seeks to consider both financial return and social good. The elements that contribute to determine an SRI investment are represented by seven recurrent practices, well resumed by Eurosif in 2012 annual review:

i. Sustainability themed Investment (toward themes or assets linked to the development of sustainability);
ii. Integration of ESG factors in financial analysis (Environmental, Social and Governance);
iii. Norms-based screening (toward investment that comply with international standards and norms);
iv. Exclusion of holdings from investment universe (forbids the investment toward companies, sectors and countries excluded from an ideal investment universe of SRI complying operators);
v. Best-in-Class investment selection (toward the best ranked organizations according to ESG criteria);
vi. Engagement and voting on sustainability matters (engagement activities on ESG matters and active security ownership);
vii. Impact investment (toward the generation of social and environmental impact alongside a financial return).

My main concern in providing this definition was to unify all the modern knowledge and practices regarding SRI. What emerged is a fragmented universe of private studies and academic researches that have the merit to compensate the lack of a common international codification. I selected the definition that was able to resume the elements that I observed more frequently in the professional practices, using at the same time a grade of simplicity that is functional to a non-ambiguous explanation.

To answer the second part of the question, I presented the development of the sector within Europe. Again, a fragmented panorama emerged, in which the gap in dimensional terms between best-in-class and tail-end countries is huge. According to Vigeo's 2013 data report on a selection of 13 European countries involved in SRI investing, France is the biggest market with total AUM of 38 billion Euro while

Spain is the smallest, with 1,1 billion Euro. Moreover, it has to be underlined that in 2013, the size of the French market was bigger in terms of AUM than the sum of the three direct followers: UK, Switzerland and Netherlands. The fragmentation can be observed not only by a dimensional point of view, but also from a legal one. Every country among those studied adopts legal codification around SRI issues at different levels. A country with a high level of codification, which represents the oldest SRI market in Europe, is the UK. In 2010 the financial services regulator introduced the UK Stewardship code that determines the good practice standards on engagement with companies (Vigeo, 2013). Some other countries like Spain and Sweden on the contrary do not have an explicit legal framework that regulates the SRI market. Norway differently, although not having an explicit framework, regulates the activity on the base of some benchmark funds. My focus on Italy allowed me to collocate it among the countries that still lacks in codified regulation and whose growth is held back by several elements. Among these, Italian researchers[19] observed four types of obstacles represented by legal, cultural, structural and political barriers.

i. Legal obstacles are due to gaps in the legislation of a country that are responsible for a lack of protection for a large set of shareholders. A situation like this is more likely to discourage the recourse to innovative forms of investments, pushing instead toward traditional and more codified type of instruments;
ii. Culture, intended as understanding of the potential of SRI investment, represents the most dangerous barrier because is the necessary element required by every institution in order to gain legitimacy. What I observed is that the lack of culture in Italy is still largely spread among many subjects. Not only among retail investors, but also among those promoters that should be able to suggest SRI based alternatives to the traditional investments, as emerged in one of the interview with an independent advisor of Etica SGR. (Independent Advisor 1, Etica SGR);
iii. Structural barriers as well as cultural ones, represent an important obstacle. It consists in the fact that the sector of pension funds, that in other countries is an engine for SRI funds growth, in Italy is still relegated to a small complement for the national social security system. A

[19] Bocchialini, E., Ielasi, F., Ronchini B., 2013. “Gli Investimenti Etici dei Fondi Pensione Italiani”. In C. Cacciamani (Eds.), “Gli Investimenti Etici dei Fondi Pensione”. Egea.

young and underdeveloped pension funds' sector implies that its operators are still lacking in experience regarding strategic decisions and management of the resources, whose destination toward innovative instruments is strongly limited (Luzi, 2010);

iv. Finally, political barriers are represented by a lack of political commitment towards creating public awareness regarding SRI investing. As a result a diffused perception is that SRI sacrifices return and increases risk because of reduction in portfolio diversification.

The second research question addresses a gap in modern literature on hybrid organizations that is represented by the definition of factors that may allow for co-existence of multiple logics in growing stage organizations.

Research Question 2: how is it possible to manage the co-existence of multiple logics even in a growing stage organization?

To answer this question I had to further narrow the focus of the analysis through a case study, choosing an organization that exclusively promotes SRI based funds and is still facing a growing stage. I used the case of Etica SGR, an asset management that started to operate in Italy in 2003 and nowadays it is one of the main players in the country.

What emerged from the analysis of Etica SGR is that the main strategic element that allows to manage tensions is represented by the organization's structure. In Etica's case, the structure had a fundamental role in smoothing the tensions deriving from the coexistence of conflicting institutional logics embedded in the core activities and worked as reputational protection. I observed that differently from other organizations that developed a similar business in Europe, Etica maintained a strict structural separation between the financial and the social activities and I was able to give three explanations:

i. The first is related with the containment of the internal tensions generated by a misalignment of cultures and competencies of the workers carriers of financial and social logics;

ii. The second is related to the avoidance of reputational threats deriving from blending social and financial activities. These threats are mainly due to a mix diffused lack of culture toward SRI investing and negative biases toward the financial activities;

iii. The third is related to a dimensional factor that made the integration of the financial functions in the organization unfeasible under an economic point of view.

These three factors are at the base of the contribution to the current literature that this thesis aspires to give, because I observed their combination to best suit growing companies instead of start-ups or mature organizations.

Recent literature observed in fact that hybrid organizations in the start-up stage need to develop a common organizational identity in order to balance the two logics and maintain the hybrid nature (Tracey, 2011; Battilana & Dorado, 2010). Such a common identity will prevent the emergence of sub-groups whose different identities emphasize the tensions between the logics combined. To manage in this purpose, they need to adopt a structure that may help the organization to reduce the influence of the different institutional environments from which employees are extracted (Battilana & Lee, 2014). A separated structure similar to Etica's that maintains the two conflicting logics strongly compartmentalized would not favor in this sense the construction of a common identity. The most viable solution is to keep them integrated into one structural unit and favor cooperation. Moreover, is reasonable to assume that recently established organizations like start-ups are still working on the construction of a solid reputation, since their customer base is only starting to assume relevant size (Grant & Jordan, 2012). As a consequence this stage does not envisage the need for a separated structure with the finality of protecting the established reputation. Finally, from an economic point of view a separation of the two functions would be unfeasible and counterproductive because of the reduced dimensions and capital losses that often organizations present in their start-up phase.

On the other side, older literature that focused on mature organizations observed that is possible to maintain hybrid nature even combining multiple conflicting logics carried by sub-groups within the organization (Albert & Whetten, 1985; Pratt & Foreman, 2000). Differently from start-ups, these organizations have well established archetypal forms that allow them to coordinate different pre-existing templates, thereby providing models to handle potential conflicts among logics (Greenwood & Hinings, 1993). In addition to this, is possible to assume that their reputation is inherently protected by the legitimacy given by a more established institutionalized form. Even internalization costs no longer represent an issue in this phase, being them dimensionally able to sustain more articulated cost structures. This allows them to have a structure that integrates social and financial logics

While internal, reputational and dimensional elements described above do not allow start-ups to opt for a separated structure, they make integration in mature organizations possible or even convenient. What I observed is an example of company that stays in the middle between these two forms and although not being mature, it is able to sustain multiple conflicting logics adopting a structure that keeps them well separated. Mixing multiple logics is important because the tension resulting from the coexistence can be productive, but only if explicit structures are established to ensure that they remain in productive balance (Canales, 2013). In this case then structural separation is a necessary condition for a productive co-existence of multiple identities and this particular configuration is particularly suitable for growing companies, because of the three elements found.

This observation is particularly important because it is able to describe a possible solution for managing organizational tensions in hybrid organizations. In this sense my research represents an element of novelty in the modern literature because it addresses a company in growing stage. This research, however, does not have the power to set a rule for similar organizations, because of the peculiarities that characterize the single case study. It is however useful to identify in the structure an effective element to overcome internal tensions and reputational threats in organizations in growing stage.

7. SUGGESTIONS FOR FURTHER RESEARCH

This research has the objective of answering to academic request for further research about the behaviors that hybrid organizations in growing stage should have in order not to damage their delicate balance between the logics thy combine (Battilana & Dorado, 2010). It has the quality of addressing the SRI sector under an uncommon perspective, leveraging the modern literature about hybrid organizations to draw suggestions over strategic actions. It has however an evident limitation.

It is in fact limited to a single case study. The validity of the findings could have been inevitably affected by local biases and idiosyncratic elements of the Italian market in which Etica is operating. In order to be able to raise the level of generality of the theory (Eisenhardt, 1989) I should have considered a larger sample of organizations.

Further research in this sense should select organizations belonging to different markets in Europe and North America and look for common problems and behaviors. Only in this way the risk of generalization of idiosyncratic elements of single organizations can be reasonably reduced.

What I could actually strive for with this research is a coherent presentation of a case that despite its simplicity has however the power to set the path for a future and more ambitious process of development of a theory.

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