

# Product Categories as Judgement Devices: The Moral Awakening of the Investment Industry

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## How Moral Judgment Entered the French Mutual Fund Industry

Values-based investing is growing in popularity. More investors are interested in having their dollars help solve global issues such as climate change, poverty and social inequality.

But defining product categories can be tricky. In the early 2000s, any French mutual fund could be called “socially responsible,” as long as the fund manager integrated some non-financial criteria in the investment process. Funds weren’t required to have a specific “responsible” purpose, nor did French asset managers include any moral criteria in fund mandates. That changed as the global financial crisis sparked deep scrutiny and industry infighting over socially responsible investing (SRI) labels.

Ultimately, France determined that SRI funds should be judged on the purposes they pursued.

The authors of a multi-year study published in 2019 tracked this “moral awakening” of the industry to figure out how and why it happened.

## The Study

The authors, Diane-Laure Arjaliès and Rodolphe Durand, observed the evolution of the SRI product category in France from 2006 to 2017.

They wanted to learn how “normative attributes” – those relating to a purpose or values – came to define the mutual fund product category, rather than “positive attributes” such as functional features. While previous studies into product categories looked at the characteristics of certain markets, such as Indian art, grass-fed meat, and organic food, they did not offer a general framework describing how purpose and values were included or excluded from a product category.

Through interviews, observation, documents and other data, Arjaliès and Durand interpreted how moral values came to define the French SRI fund category.

## Results

They determined that this product category was developed through three distinct phases:

- The first period, judgment silence, ran from 1997 to 2007, when market participants avoided discussing the purpose and values of SRI funds.
- Then came judgment questioning, a period after the global financial crisis from 2008 to 2012, when the industry was harshly criticized for loose definitions and confusing SRI labels, and investment professionals themselves felt conflicted.

- And finally, judgment inclusion, from 2013 to 2017. In this period, industry participants stopped fighting each other and agreed with French government authorities on a purpose-based definition of SRI.

Investment managers who perceived themselves as social activists, professionals who weren't activists but saw a market opportunity, and government authorities who wanted to position France as a leader in fighting climate change all had reason to develop the SRI label.

France became the first country to define the investment product based on moral attributes instead of technical features.

## Implications

In a purpose-based category, the authors say that the judgment process is essential to categorizing the product. In the case of SRI, it's only the "intention" baked into the product (i.e., contributing to a sustainable real economy) that distinguishes a socially responsible mutual fund from a conventional one. This suggests that market actors can define and enact product categories to pursue alternative purposes.

Most product categories try to simplify the act of purchasing. Purpose-based product categories, however, make purchasing more complex. They raise tough questions for producers, third parties, and clients, forcing people to make personal judgments about morals and values.

The authors note that other financial product categories have similar characteristics to SRI -- Islamic finance, collateralized debt obligations and life insurance, for example. But the "judgment paths" for these categories differed from the judgement path of "silence-questioning-inclusion" for SRI funds.

This single case study included unique events and context, such as the global financial crisis and the role of the French state. The authors suggest that future research could delve deeper into the conditions that explain why some product category definitions move toward (or away from) moral purpose and values.

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