Analyzing the Constitutive Conditions for a Self-Energizing Effect of CSR Standards: An Explorative Case Study on the "Equator Principles”.

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Paper submitted to the “Summer School on Self-reinforcing Processes in Organizations, Networks, and Markets”, July 13th to 17th, 2009, FU Berlin

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1) Introduction

The past decade has witnessed the rapid emergence of a large set of voluntary corporate social responsibility (CSR) standards with business firms increasingly considering and communicating their environmental and social performance (Sethi, 2002; Waddock, 2008). Nowadays, accountability initiatives set off by business firms constitute a widespread phenomenon with approximately 300 codes governing most major global economic sectors (Vogel, 2008: 262). So far, however, the academic community has appeared rather unconcerned to critically examine these standards (Gilbert & Rasche, 2007: 756) and our knowledge is limited regarding the question *how* and *why* certain CSR initiatives diffuse extensively, becoming *de facto* standards in a globalized industry, whereas others do so only partially or not at all. Our paper aims to fill in this void by exploring the processes and conditions that eventually trigger a self-reinforcing mechanism of industry-wide CSR standardization.

Surprisingly, one of the rare examples where a "soft" guideline on CSR issues has been implemented as a quasi binding standard stems from the financial industry: the "Equator Principles" (EP), a worldwide standard among project financing institutions to base investment decisions on social and environmental aspects. Launched by commercial banks in 2003, the EP standard constitutes a general, voluntary framework comprehending ten broad principles for international project financing in developing countries. Project finance refers to large public infrastructure and development projects, such as bridges, dams or pipelines, and is based upon a non-recourse financial structure where project debt and equity used to fund the project are paid back from the cash flow generated by the project (cf. Scholtens & Dam, 2007). International project finance denotes the funding of domestic projects by non-domestic financial institutions.

As stated in the EP initiative's preamble, the principles aim at ensuring that financed projects "are developed in a manner that is socially responsible and reflect sound environmental management practices" (Equator Principles, 2009). The EP standard has seen rapid adoption in the past few years, as reflected in the increase and diversification of its membership base. The founding group of a small number of Western hemisphere banks has grown up to 69 adopting institutions located in 27 countries. In 2007, over 85 percent of cross-country project financing was conducted according to the EP standard (Bergius, 2008). UNCTAD concludes: “No major project is likely to be financed today without the application of the Equator Principles” (UNCTAD, 2008: 115).

Previous research on the EP has either been purely descriptive (e.g., Watchman, Delfino, & Addison, 2007) or focused on explaining regional patterns of adoption rates, arguing that they “reflect variations in the institutional environment of financial institutions” (Wright & Rwabizambuga, 2006: 109). To our knowledge, scholars have not dealt with process-related aspects of EP diffusion, and have not been concerned with the question what can be learned from the EP initiative for other, comparable efforts of standardization. We have therefore conducted a multi-method case study (Yin, 2009) that puts special emphasis on the exploration of the constitutive conditions and the underlying mechanisms of EP diffusion. As a first step, we tracked the evolution of the initiative since its beginning by means of an historical analysis of press articles and other official documents. Second, we conducted a series of semi-structured interviews with relevant actors, e.g., representatives of the financial institutions (both adopting and non-adopting banks) and non-governmental organizations (NGOs) active in monitoring the sector of international project finance.

The remainder of this paper begins with a brief introduction to classic and neo-institutionalist theories of diffusion and argues that standardization must not be conceived as the passive adoption of homogenous practices but rather resembles an interpretative and dynamic negotiation process that involves the clash of different institutional logics within organizational fields. The subsequent chapter outlines the research methodology of our qualitative study. The fourth chapter presents the results of our study. The fifth chapter re-describes these findings with reference to neo-institutionalist theory and argues that the process of EP diffusion can be understood as an unexpected yet increasingly dynamic love story of business and socio-environmental rationales. The final chapter concludes by summing up preliminary findings and illuminating avenues for future research.

2) CSR standardization and the contribution of neo-institutional theory

This chapter argues that CSR standardization can be regarded as a case of reinstitutionalization of organizational fields. In order to locate CSR standardization within the more general diffusion research, we start with a brief distinction of classic versus neo-institutionalist research traditions on diffusion. In a second step, we divide the neo-institutionalist perspective into two major strands, i.e., diffusion-as-contagion vs. diffusion-as-negotiation, and illustrate that the second line of reasoning has evolved as a powerful critique of the first rationale's deficiencies. Finally, we assert that the dynamics of CSR standardization can be understood in terms of a contest between different institutional logics.

Classic versus neo-institutionalist accounts of standardization

Diffusion can be broadly defined as the spread of a "behavior, strategy, belief, technology, or structure […] within a social system" (Strang & Soule, 1998: 266). Classic theories focus on the generation and dissemination of technical innovations (Rogers, 2003). In this tradition, diffusion is referred to as "the process by which an innovation is communicated through certain channels over time among the members of the social system" (Rogers, 2003: 5). Innovation, in turn, is understood as any "idea, practice, or object that is perceived as new by an individual or other unit of adoption" (Ibid: 12). This line of diffusion research argues that the adoption rate of an innovation resembles an S-shaped logistic curve with slow increases in adoptions until a threshold level is reached where adoptions accelerate rapidly, then levels off and increases only slowly to reach the last adopters (Ibid).

Today, a large body of literature exists within classic diffusion research as well as numerous theoretical models, which explicate the dynamics of diffusion. For instance, in their analysis of the diffusion of innovations in health service delivery and organization, Greenhalgh and colleagues (Greenhalgh, Robert, Bate, Macfarlane, & Kyriakidou, 2005) screened over 6,000 publications and identified 13 relevant major research traditions within the literature. Classic diffusion research is mainly concerned with the diffusion of innovations to individuals, examining to a lesser extent diffusion to organizations (Rogers, 2003). However, there has been significant growth recently in the study of diffusion across organizations, fueled by increased interest in neo-institutional arguments (Powell & DiMaggio &, 1991).

Neo-institutionalist research on organizations directs attention to the question in which way the larger environment influences the spread of cultural practices and structures within organizational fields rather than looking at the inter-personal spread of technical innovations. Most important, it highlights the symbolic and non-technical functions of institutional forms (Meyer & Rowan, 1977) and regards the quest for organizational legitimacy (Suchman, 1995) as the driving force behind diffusion processes, predicting a pattern of isomorphism (DiMaggio & Powell, 1983). Though new practices may spread at first for efficiency reasons within an organizational field, later in the diffusion process they are adopted for reasons of legitimacy rather than actual performance. Thus, differentiation by early adopters is followed by the homogenization of organizational practices as a growing number of organizations copy the practice (Tolbert & Zucker, 1983).

There is a huge overlap between diffusion and the concept of institutionalization (Walgenbach & Meyer, 2008: 96), the latter understood as "more-or-less taken-for-granted behavior that is underpinned by normative systems and cognitive understandings that give meaning to social exchange and thus enable self-producing social order" (Greenwood, Oliver, Sahlin, & Suddaby, 2008: 4f.). In fact, diffusion can be taken as an indicator for the extent or the strength of an institutional structure. Therefore, "studies of diffusion may be regarded as studies of increasing institutionalization" (Scott, 2001: 114). Given the clear conceptual match between diffusion and institutionalization, we argue that the process of CSR standardization can be fruitfully analyzed within the neo-institutionalist research tradition. In this sense, CSR standardization can be considered as the increasing institutionalization of a social or environmental practice. Though there might be other valuable approaches such as stakeholder theory (cf., e.g., Gilbert & Rasche, 2007) we think that a discussion of CSR-standards from the neo-institutionalist perspective is worthwhile due to the strong anchoring of the legitimacy concept within neo-institutionalist theory (Deephouse & Suchman, 2008). The notion of legitimacy being the result of conformity to institutional pressures provides a useful starting point for a thorough understanding of the dynamics of CSR standardization, since there might be neither a "business case" nor an entirely ethically motivated mandate for CSR (cf. Hiss, 2006).

In the following, we elucidate the vast field of neo-institutionalist diffusion studies by classifying them into two major schools, i.e., distinguishing between the "diffusion-as-contagion" and the "diffusion-as-negotiation" perspective. We then locate relevant neo-institutionalist studies on CSR-standardization within this framework.

Diffusion-as-contagion versus diffusion-as-negotiation

In recent years, various scholars working in the neo-institutionalist tradition have criticized the theory's deficient explanatory power (see Greenwood et. al, 2008; Walgenbach & Meyer, 2008: 85). In particular, scholars have lamented that most studies of diffusion focus at the outcome but not at the process of institutionalization (Tolbert & Zucker, 1996). It has been argued that neo-institutionalist theory fails to explain why some institutional forms and practices diffuse widely and others do not, and remains silent why and how practices fall into disuse, i.e., why and how they are deinstitutionalized (Hiss, 2006: 153). More general, scholars have complained about the conceptual neglect of individual agency and endogenous change in neo-institutionalist theory and have expressed significant dissatisfaction with regard to the overly static and deterministic view of diffusion emphasizing the passive adaption of already institutionalized practices (DiMaggio, 1988).

At the same time, other authors (e.g., Brunsson, 1989; Campbell, 2004; Sahlin-Andersson, 1996; Sahlin & Wedlin, 2008) have put forward that conventional diffusion studies overestimate the transferability of practices with cultural meaning, and oversee the fact that diffusion of institutionalized structures and practices is subject to various definitions and interpretations of actors. For instance, Brunsson states that "unlike infection […] the 'object' of the diffusion cannot spread by itself – it must be actively adopted by some actor or other" (Brunsson, 1989: 262). Strang and Soule go further by arguing "that practices do not flow: [t]heorized models and careful framings do" (Strang & Soule, 1998: 277). Thus, not physical objects circulate but ideas and their rationalizations. Practices need to pass a cultural filter in order to achieve resonance in foreign contexts, and often become reinterpreted and modified in the course of diffusion. This active negotiation process on the decision what is actually transmitted has been conceptualized for example as "editing process" (Sahlin-Andersson 1996), "translation" (Czarniawska & Sevón, 1996), or "institutional work" (Lawrence & Suddaby, 2006). The call for interpretative research approaches has also entailed a methodological critique of large-scale quantitative studies dominant in diffusion research and suggests to increasingly engaging in qualitative studies and theory-building (Walgenbach & Meyer, 2008: 186).

To summarize, neo-institutionalist theory has been criticized for its limited accomplishment to only account for the diffusion and reproduction of successfully institutionalized practices (DiMaggio, 1988: 12). We refer to this view as "diffusion-as-contagion" perspective, given its disease-like portrayal of diffusion as an automatic and inevitable infection. In reaction to this view, organizations are increasingly portrayed as making sense of institutional pressures, and are believed to engage proactively with them (Sahlin & Wedlin, 2008). We refer to this more agentic and dynamic view as "diffusion-as-negotiation" perspective. We believe that this dichotomist split of the diffusion literature proves to be helpful in guiding our assessment of the so far rather sparse body of neo-institutionalist accounts on CSR-standardization.

Recent neo-institutionalist explanations of CSR have focused on the historical structures that shape the development of distinct CSR-traditions (Matten & Moon, 2008) and explain variations of CSR driven by the need to ease socio-cognitive integration into institutional contexts (Gardberg & Fombrun, 2006). More specifically, investigations of EP diffusion offer detailed assessments of the standard's features and various adoption motives (e.g., Watchman, Delfino & Addison, 2007) but remain notably silent with respect to a theoretical grounding of observed diffusion dynamics. Wright & Rwabizambuga (2006) use institutional theory as a conceptual framework for explaining the EP diffusion process, and argue that European and North American financial institutions face particularly strong reputational pressures to become "green". These authors can be fitted in the diffusion-as-contagion perspective since they do explicate how the EP standard becomes altered in the course of the adoption process or why some major Western banks have not applied the initiative.

Recently, however, there have been some significant efforts to overcome the passive actor concept within standardization frameworks. Most important, Hiss contends that dynamics of CSR standardization need to be understood as the result of the interaction between competing myths and actors. Myths are societal expectations that are collectively shared by the majority of actors within an organizational field (cf. Meyer & Rowan, 1977). Myths are taken for granted in institutional equilibrium and therefore provide a source of legitimacy. In institutional disequilibrium, however, dominant myths are contested. This "fight for myths" provides a source for delegitimation and eventually leads to the deinstitutionalization and/or reinstitutionalization of formerly dominant practices (Hiss, 2006; forthcoming). In this context, Hiss builds upon the notion of a "spiral of myth" (Deutschmann, 1997) that accounts for the incidence of crisis and self-reinforcing dynamics within organizational fields, therefore opening up institutional theory for processes of change. In the course of this study, we propose a similar approach as suggested by Hiss, yet focusing on contending institutional logics.

Organizational fields as contest between institutional logics

Organizational fields constitute a central level of analysis in neo-institutional theory (Wooten & Hoffman, 2008: 130). As sketched above, research within the diffusion-as-contagion perspective has emphasized the passive adoption of uniform and fully institutionalized practices. In this perspective, organizational fields move towards isomorphism (DiMaggio & Powell 1983) and there is not much room for endogenous change and heterogeneity.

Whereas early notions have examined organizational fields on the basis of a common technology or market (DiMaggio & Powell 1983: 143), the concept of organizational fields has recently been used to depict institutionalization processes that unfold around interactions (Scott, 2001) or regulatory issues (Hoffman, 1999). These refinements have allowed for the integration of notions of heterogeneity, and dynamic and non-isomorphic change (Walgenbach & Meyer, 2008: 72). Building upon the work of Hoffman (1999, 2001), recent research suggests extending field membership towards all actors who participate at the "politics of signifying" with respect to the public discourse on a particular issue (Meyer, 2004).

We follow this proposal and argue that organizational fields serve as systems of sense-making that emerge and become shaped and reshaped as actors combine different and contending institutional logics (Kostova, Roth, & Dacin, 2008: 1002). The concept of institutional logic refers to "broader cultural beliefs and rules that structure cognition and guide decision making in a field" (Lounsbury, 2007: 289). Friedland and Alford argue that institutions of Western industrialized countries are "potentially contradictory and hence make multiple logics available to individuals and organizations" (Friedland & Alford, 1999: 232). The clash of different logics increases the probability of institutional change (see Fligstein, 1990; Greenwood & Hinings, 1993; Lounsbury, 2002; Reay & Hinings, 2005) as engagement and dialogue within a field produces a gradual convergence of identities and a concurrent alteration of the field structure itself (Wedlin, 2006). Multiple logics may therefore generate new practices by shaping individual and collective understandings of what conditions are problematic and what practices represent appropriate solutions to these problems (Fligstein, 1990; Friedland & Alford, 1991; Lounsbury & Crumley, 2007; Thornton & Ocasio, 1999).

Note that there is some overlap between the idea of contending logics and the notion of a fight for myths (Hiss, forthcoming). Both views share the belief that institutional contexts are actively shaped by agency and therefore explicate processes of deinstitutionalization and reinstitutionalization. Whereas the logics approach explains field dynamics as the competition of already existing institutional logics (Marquis & Lounsbury, 2007) or as the outsider-induced entering of new logics (Maguire & Hardy, 2009), the latter concept is more concerned with the impact of different economic and non-economic actors on the trajectory of the spiral of myths (cf. Hiss, forthcoming). Thus it does not take an explicit field approach where field membership is understood as the participation at a system of sense-making. While both accounts can be subsumed under the diffusion-as-negotiation perspective and significantly contribute to our understanding of institutionalization, we find that the notion of contending logics provides a more apt concept to analyze the development of collective rationality, and better directs our attention to the ultimate sources of legitimation. That is, dialogue and negotiation as the communicative foundation of appropriateness in a given institutional context. In our view, institutional logics presuppose myths in that they offer the rationale on how to evaluate prevailing definitions of taken-for-granted practices in institutional equilibrium. Thus, analytical focus needs to be put on the social and communicative construction of institutional logics while at the same time keeping in mind that logics materialize themselves through actions.

This chapter has sketched the theoretical toolkit that we will use in the fifth chapter to analyze in more detail the conditions that facilitated a self-reinforcing mechanism of EP diffusion. We contend that a more thorough grounding of the diffusion-as-negotiation perspective requires a conceptualization of organizational fields as sense-making systems or negotiable frames that are defined and re-defined by multiple and potentially opposing logics. In this sense, fields may serve as mechanisms for bringing about phenomena other than similarity (Wooten & Hoffman, 2008: 137), hence accounting for various patterns and dynamics of standardization. The following chapter gives an overview on the research process and our empirical methodology.

3) Methodology

Our choice of a case study approach in the tradition of Yin (2009) or Eisenhardt (1989) represents a well-established empirical methodology for research in organization studies (Hartley, 1994). This study follows the principle of triangulation (cf. Denzin, 1970; Flick, 1992) by combining various research methods. Having a predominantly explorative character, the research process aims at theory development rather than validating or falsifying existing hypotheses (Eisenhardt, 1989: 532). Hence, we do not intend to confirm, but rather to achieve an in-depth understanding of the processes and mechanisms, which have finally led to the widespread diffusion of the EP standard.

In a first step, we tracked the evolution of this initiative since its beginning in 2003 based on the data provided by the EP website (http://www.equator-principles.com/index.shtml) and additional press articles. Moreover, thanks to data provision by Infrastructure Journal (e.g., Caceres, Ellis & Melville, 2007), which regularly analyzes the market of project finance, we were able to evaluate the significance of new banks adopting the EP standard by their average underwritten debt volumes.

Second, we conducted a first wave of 20 interviews with actors relevant to the EP initiative, i.e., representatives of the financial institutions (both EP-adopters and non-adopters of the EP), NGOs active in monitoring the project financing sector (e.g., members of the NGO network BankTrack) as well as experts from related institutions, such as the United Nations Environment Programme Finance Initiative (UNEP-FI). For selecting interview partners from the institutions described above, we made use of our analysis of the historical evolution of EP adoption. With the aim to maximize the variance of qualitative research results, this allowed us to select institutions that have adopted the EP standard during the different stages of its development (cf. the notion of "theoretical sampling" by Glaser & Strauss, 1967: 45). For the subsequent qualitative interviews, we chose a narrative form, following the aim to compile descriptions rooted in the life-world of interviewees (Kvale, 1983: 174).

The interviews were conducted in a semi-structured way. The field manual centered on various dimensions of EP dissemination (e.g., role of major market players, role of stakeholders) and was used to initially stimulate and potentially re-stimulate narrations by the interviewee. Contrasting other qualitative interviewing techniques, this methodology (Witzel, 2000) acknowledges that the researcher is not able to consciously turn off his or her theoretical pre-understanding of the issue under investigation.

In total, the 20 semi-structured interviews lasted from 30-60 minutes each and were either conducted via telephone or face-to-face. The sample consisted of the following interviewees:

- Institutions: Nine EP-adopting banks, three non-adopting banks, three NGOs, and five further experts (from journalism, academia, or other institutions active in the field of sustainable finance); note that we interviewed two representatives of the same institution (with one interviewee positioned in the CSR/corporate communications department and one interviewee positioned in the risk management department).

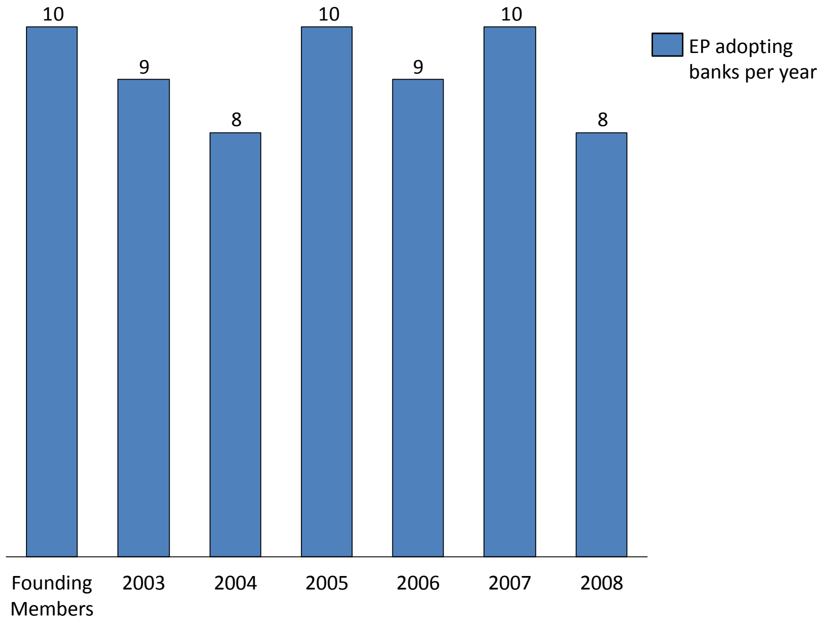
- Geographic split: Three banks headquartered in Switzerland, three in Germany, two in Japan, one in France, one in Italy and one in the Netherlands. Due to lack of availability, we were not yet able to conduct interviews with representatives of banks headquartered either in the US, the UK or in BRIC countries (Brazil, Russia, India and China) but plan to do so in a second wave of interviews.
- Functional split (within financial institutions): Most of the interviewees (six) were positioned in the CSR or sustainability departments of their organizations. Three interviewees were based in risk management; two interviewees were positioned in corporate communications and one in the research department of their respective organizations.
- Gender split: We conducted interviews with 16 male and four female interviewees.

The following chapter presents the empirical results gathered both by the historical analysis and the qualitative interviews.

4) Case Study Results

The EP were founded by ten financial institutions when launched in 2003. In the course of its development (and contrary to classic theories of innovation diffusion; cf. chapter 2), the initiative experienced a relatively linear slope of adoption when interpreted by adoption frequency: Some nine to ten banks have adopted the EP standard each year (see figure 1). The adoption rate slowed down only directly before the revised EP had been announced in 2006. Nevertheless, despite having revised the EP and increased the potential volume of projects to be considered, neither a significant increase nor decrease of the adoption rate has resulted.

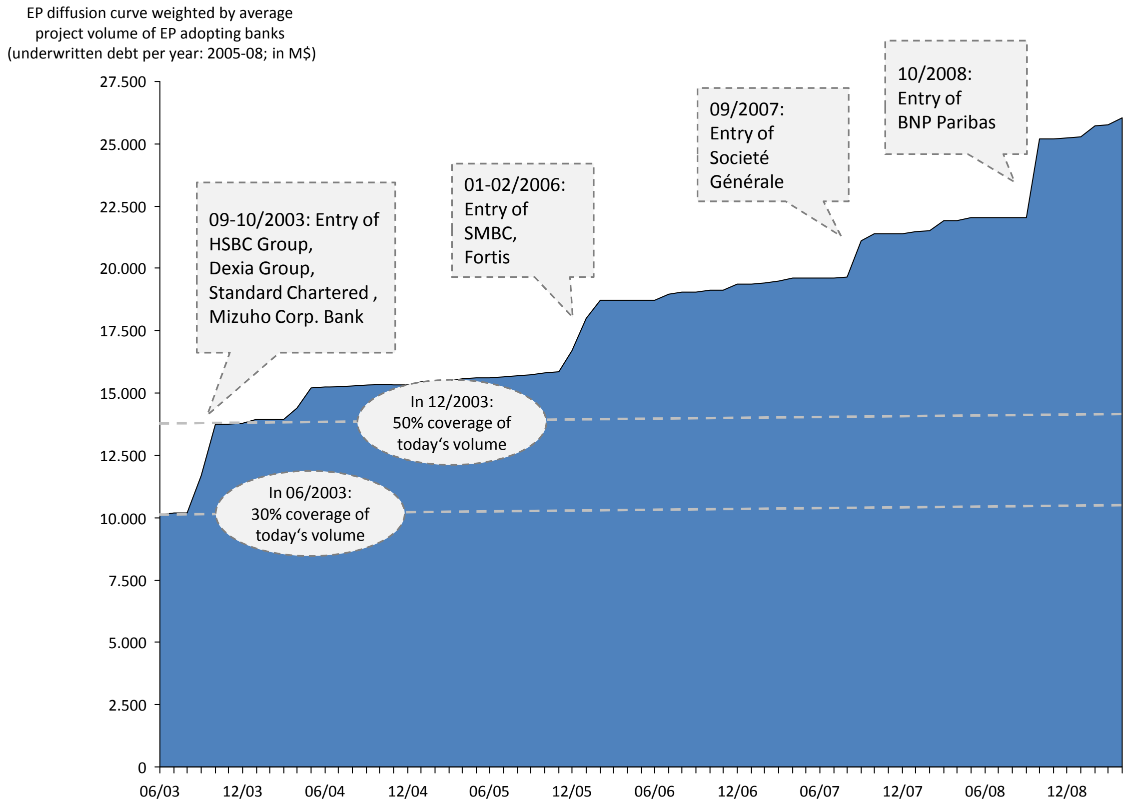
Figure 1: EP-adopting banks per year



Contrary to the adoption rates in terms of adoption frequencies, the analysis of diffusion weighted by the significance of adopting banks shows a more disruptive development (see figure 2). We measured the banks' significance by the bank's average underwritten debt in international project finance per year (over a time period from 2003 to 2008). The analysis shows that only at a comparably late point in time had key market players such as BNP Paribas and Societé Géneralé adopted the EP. However, from its start in June 2003, the EP standard has already covered about 30 percent of today's market significance, and almost 50 percent after six months, in December 2003.

Figures published by Infrastructure Journal (Caceres, Ellis & Melville, 2007) suggest that by the end of 2007, about 85 percent of all large international infrastructure and development projects (measured by their underwritten value in US-dollars) are following the EP standard. Still, it cannot be concluded that 85 percent of those banks active in international project financing have adopted the EP standard. Rarther, 85 percent of the total volume has been managed applying the EP. Practice shows that, due to the multibank and syndicate-like structure of most large projects (see further below), as soon as one of the participating banks has adopted the EP, they will be applied throughout the entire project. As most of the leading banks in project financing have adopted the EP and thus are obliged to follow these criteria for all project financing they conduct, smaller and formerly non-EP institutions are pressured to accept EP application as well, if they want to participate in a particular project.

Figure 2: EP diffusion weighted by average annual project volume of EP-adopting banks



We extended our understanding of the constitutive conditions of EP diffusion by means of qualitative interviews as described above. In the presentation of the interview results, we distinguish between initial market conditions and conditions emerging in the self-energizing dynamics which have finally led to EP diffusion. The presentation of results furthermore combines information available from public sources on the EP standard and the particular insights we were able to gain through the interviews.

Initial market conditions and relevant actors

The international project finance sector is a small but significant business segment for major financial institutions. According to most of the interviewees, for those institutions that are active in project financing, this segment commonly accounts for up to five percent of their overall turnover. The sector is characterized by a high degree of concentration and accordingly is shaped by a few major market players (e.g., Citigroup, WestLB, Calyon, or BNP Paribas; Caceres, Ellis & Melville, 2007). Moreover, the sector features a high degree of mutual dependencies among these players as international projects are typically financed jointly by syndicates that involve several financial institutions.

Project financing is a high-margin business but also involves significant risks. This is in particular due to the fact that large infrastructure and development projects are usually conducted by short-term joint ventures (in the form of "special purpose vehicles"). The banks' loans are then secured by the project assets and paid entirely from a project's cash flow, rather than from the general assets of the project sponsors (cf. Scholtens & Dam, 2007). Therefore, a project failure may result in a near-complete loss of investments.

NGOs have established themselves as watchdogs for the social and environmental aspects of international project financing. Their activities benefit from the fact that large infrastructure and development projects have a high visibility and thus are very likely to cause media attention. At the same time, the project finance sector is characterized by a comparably transparent and straightforward link between the project and its financing institutions (in contrast to insurance, for instance, which typically shows a much more convoluted structure of risk distribution). This also enables third parties to directly attribute violations of social and environmental principles at a project site to the project investors.

Last but not least, the International Finance Corporation (IFC) plays an important role in this field. Before the launch of the EP, the World Bank and the IFC had already established a set of performance standards, which then served as basis for generation of the EP catalogue. Having been previously involved in direct project financing itself, the IFC has now, given that more and more banks have moved into this profitable field, adopted the role of a proactive promoter of the EP standard.

<u>Conditions emerging in self-energizing dynamics</u>

In the project finance sector, NGOs have achieved a particularly powerful position, as several interviewees consistently emphasized. They are able to leverage the fact that reputational risks can eventually lead to the complete failure of a project, for instance, if a country's government stops a project due to the environmental risks involved. Therefore, major market players (being the ones which typically face highest risks to reputation) saw the urgent need to minimize these risks by introducing a shared CSR standard. Accordingly, preserving reputation with regards to social and environmental aspects has become a matter of general risk management.

Within the process of standard creation, the major market players were able to draw on the legitimizing role of the IFC as a neutral authority with particular expertise in the field of project financing. The EP standard was proactively promoted and shaped by the IFC as a hands-on laundry list comprising precise social and environmental criteria (in the words of an interviewee, "broken down to the pH value of waste water") which made it easy for Equator banks to incorporate these criteria in form of a CSR due diligence process (next to other due diligences such as legal or financial).

In a next step, the move towards initiation and application of the EP by a few major market players put pressure on competitors to decide whether they wanted to follow the standard or not. As one interviewee put it, "it created a new reality and a new sense of entitlement". In the course of our qualitative research, we found that the further dissemination of the EP standard was promoted by three main emergent conditions: First, it was driven by the major market players' interest to convince as many competitors as possible to adopt the standard in order to create a level playing field for dealing with reputational risks. As one interviewee emphasized "(we)…have to avoid a race-to-the-bottom when it comes to social and environmental standards" and should rather "compete on issues such as quality". Second, the major market players' ability to further promote the standard's adoption benefited from the fact that in an established syndicate, usually the most rigid CSR standard will finally be applied for the project. So whenever at least one of the EP-adopting major market players was involved in a syndicate, the EP already were applied even when the other banks involved had not officially adopted the standard. Third, the standard presumably gained momentum by the fact that it still had the character of a voluntary "gentlemen's agreement" rather than being imposed by dominant actors.

These three conditions encouraged the adoption by further market players, leading to the EP's current position as a *de facto* standard for environmental and social issue in international project financing. In the course of this process, not only did the number of adopters increase; in addition, the EP standard was more and more established as a "lived" standard, as many interviewees consistently highlighted. As an interviewee phrased it, the EP initiative is "a standard that not only exists on paper but in the mindset of people". The annual gatherings of EPFI and NGOs soon created the opportunity for these parties to meet up regularly, to exchange expertise on international project financing, and to engage in a mutual learning process. Not only representatives of NGOs, but also many of the adopting banks emphasized during the interviews the valuable opportunities for NGOs to critique and ask questions that fostered the development of the EP with a constructive dialogue. This "Community of Learning", as the annual meeting of EPFIs and NGOs is officially called, was a key driver for the revision of the EP in 2006. This revision reflected adjustments in the IFC performance standards and included above all the application of the EP standard to all project financings with capital costs above 10 million US dollars (instead of pre-revision threshold of 50 million US dollars), as well as its application to project finance advisory activities.

It was mentioned by almost all of the interviewees that the applicability and preciseness of the EP decisively facilitated their proliferation. Whereas other sustainability standards, such as the UN Global Compact, were considered as honorable yet too vague to integrate into day-to-day business, the EP standard became directly applicable as a risk-management tool. As such, it was considered very useful in enhancing better management practices of environmental and social risks of financed projects. Also, as the EP required precise action, making loose and spongy commitments regarding implementation was prevented.

Importantly, most interviewees mentioned that the EP are in a process of consolidation and continuous improvement, where governance structures, more explicit measuring and outreach to BRIC countries are currently on top of the agenda. More than that, the EPFI employees in charge of handling compliance with the standard now propagate to extend the scope of the EP to other business segments within their firms. This is commonly seen as a natural next step of EP development. With this, the EP-related employees themselves become agents of the CSR idea within their own banks.

Nevertheless, as several interviewees also asserted, there are ways for financial institutions to either circumvent or undercut the EP. Three main *exit door strategies* can be distinguished here: First, banks can re-define their project finance business as representing something else, e.g., export finance or corporate finance activities. Second, even when sticking to EP standards, project finance syndicates can classify the projects they finance as category B or C (or even invent a new sub-classification such as B+ or B-) in the aim to avoid an EP-relevant A classification. Interestingly, one interviewee of a non-adopting bank interprets the backdoor option for banks to redefine the project as a B or C class type as one of the most crucial condition why it was easy for so many banks to adopt the standard in the first place. Third, some banks explicitly did not adopt the EP criteria as they regard their internal standards as being superior to the EP. In other words, they did not want to become associated with the lowest common denominator character of the EP as an industry-wide standard (cf. Sethi, 2002).

Taken together, the self-energizing dynamics of EP diffusion can be summarized as follows: In the sector of international project finance, NGOs have a special leverage for reinforcing a standard such as the EP because reputational risks most directly affect financial risks from project failure. Also, social and environmental misconduct can be directly linked to the executing project financiers, i.e., the financial institutions. Therefore, major market players were willing to establish a CSR standard for project finance in order to minimize these risks. Given the mutually dependent structure of the sector, the major market players' move has created a strong incentive for other banks' adoption of the standard. The club character of the EP featuring regular meetings further reinforced the pull to become a member by adopting the standard. In the aim to minimize risks, EP adoption itself became a low-risk strategy given that adopting banks still have the chance to categorize projects so that the EP do not apply.

5) Discussion: Three Stages of Field Formation

In the following, we integrate our empirical findings into neo-institutionalist theory and argue that viewing standardization as a socially constructed phenomenon can contribute to our understanding of CSR standard diffusion. By re-narrating the insights we gained in the course of our qualitative research, we try to shed some light on the central research question, i.e., which processes and mechanisms account for the rapid dissemination of the EP standard among project finance institutions.

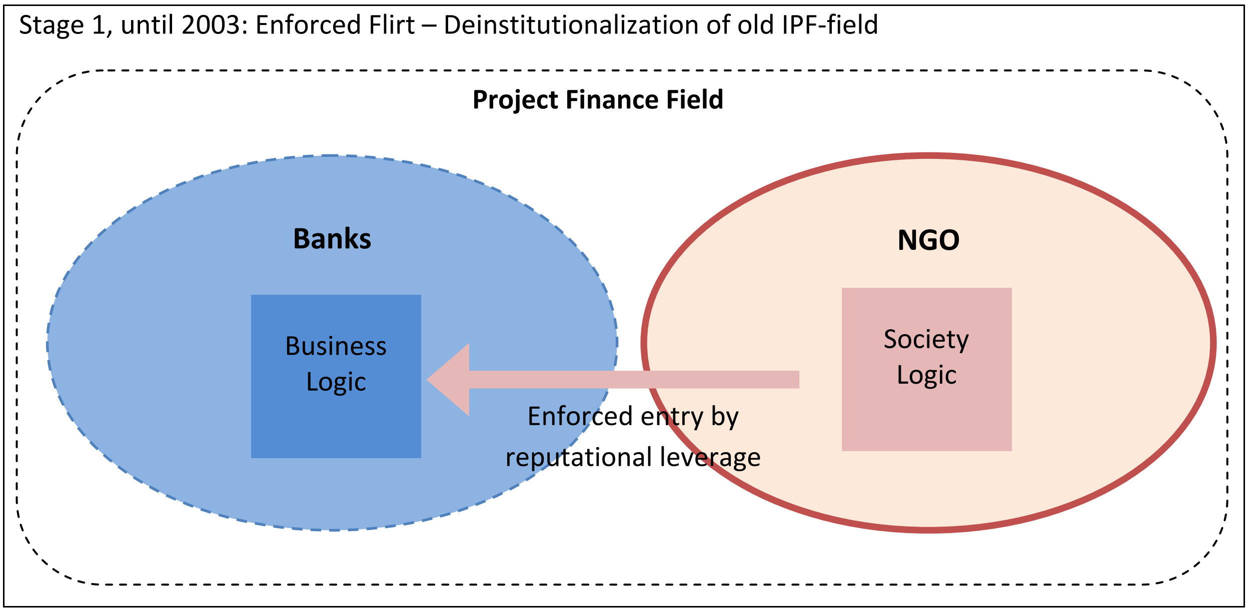
In the second chapter we have made the analytical distinction between "diffusion-as-contagion" and "diffusion-as-negotiation" perspectives, arguing that the former view does not adequately account for the observed patterns and dynamics of standardization processes, due to its overly emphasis on the passive adaption of immutable practices. The mechanism presented below draws significantly on the diffusion-as-negotiation perspective, in particular following the notions of "institutional war" (Hirsch, 1997) and "fight for myths" (Hiss, 2006; forthcoming). Intriguingly, the genesis and evolution of the EP standard can be described as an unexpected yet highly dynamic love story between socio-environmentalist and business rationales.

We divide the EP-standardization process into three separate stages, encompassing the time periods “until 2003”, “2003 – 2008”, and “after 2008”. Along with narrative accounts we provide simple figures for each stage in order to better illustrative the complex and somewhat abstract argument we are proposing. Each figure exhibits ellipse-shaped organizations residing in an issue field (e.g., international project finance) and uses colored rectangles to picture different institutional logics that may reside within the same field. We believe that this highly aggregated depiction may prove helpful to understand the dynamics of EP diffusion and standardization processes more general.

Stage 1, until 2003: Rejected flirt

In the time period preceding 2003, the issue field of international project finance is characterized by financial institutions, on the one hand, and NGOs, on the other hand, proactively engaging in watchdog activities. The NGOs, therefore, can be phrased as largely following *society logic,* whereas financial institutions follow what can be termed as *business logic.* With the term business logic, we mean a shared desire to achieve technical efficiency, whereas society logic represents a shared concern for societal and environmental issues. During the first stage, society logic remains outside financial institutions and exhibits a huge institutional distance to the prevailing business logic (see figure 3), given that socio-environmental issues are largely ignored by financial institutions. This is exemplified by the fact that risk management and controlling constitute dominant rationality myths (cf. chapter 2) at the organizational level and legitimize current managerial practice (cf. Power, 2007). At the individual level, representatives of contending logics rarely meet or communicate, as tellingly stated by Christopher Bay, Head of Environmental Risk Policy Management at Barclays Group: “A few years ago if you spoke to an investment banker about environmental and social issues they would have thought you are a hippie” (Watchman, Delfino, & Addison, 2007: 2).

Figure 3: First stage of field formation



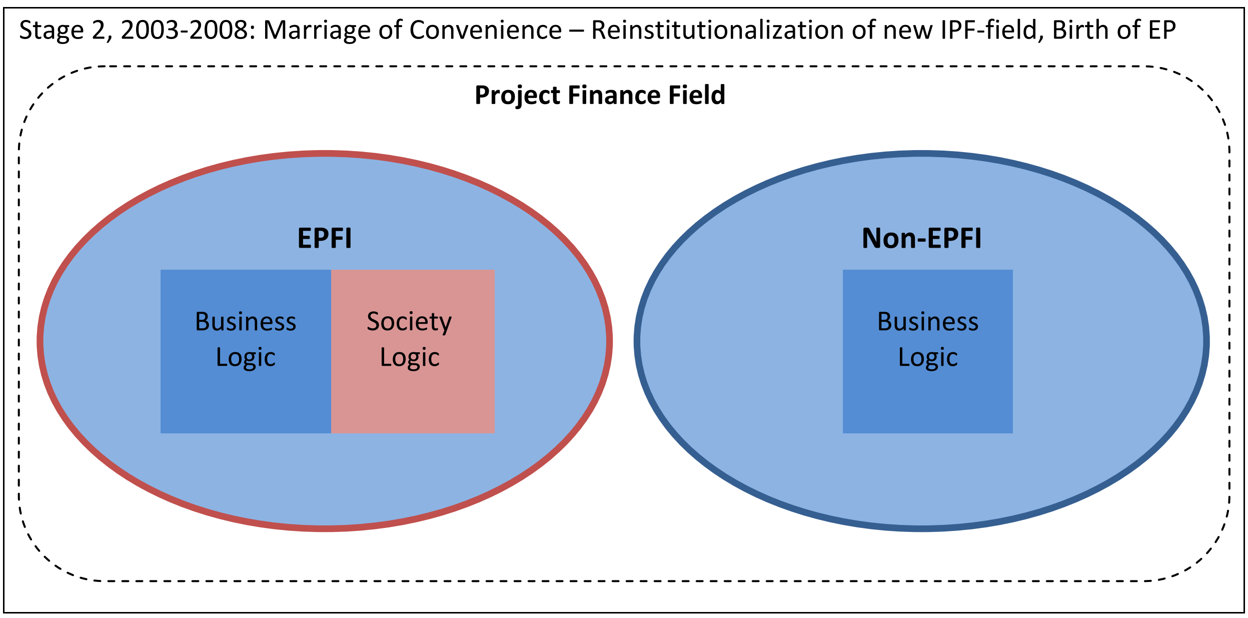
Though not yet challenging taken-for-granted assumptions, the contestation of project finance via protest movements and its intensification by media-driven scandalizations (cf. Eisenegger, 2005) reveals the widening legitimacy gap between current business practices and societal expectations. Particular disruptive events, such as the RAN-campaign targeting Citibank, force major market players to reconsider reputational considerations as an integral part of risk management. “Hard-nosed bankers” actually unwilling to engage with aspects of the environmental and societal impact of project finance are suddenly forced to deal with and contemplate about issues of sustainability (Watchman, Delfino, & Addison, 2007). The reputational leverage of NGOs thus renders the banking organizations permeable for the infusion of society logic (note the dashed bank contours in figure 3), foreshadowing the issue field’s redefinition and looming deinstitutionalization in the second stage.

<u>Stage 2, 2003-2008: A marriage of convenience</u>

In 2003, the enforced flirt between business and society rationale bears the unexpected child Equator Principles. In this connection, the IFC serves as a proactive midwife pulling the largely unwanted child into existence. The IFC’s authority and expertise in the field of IPF results crucial to understand the EP’s impressive kickoff since its direct affiliation with the IFC creates significant “legitimacy spillovers” (see Kostova & Zaheer, 1999; Kostova, Roth & Dacin, 2008) for the nascent standard. As can be seen in figure 4, the institutional distance between business and society logic has narrowed and now exhibits a close match within the financial institutions which have adopted the EP standard. Though society logic has managed to enter Equator banks and to prevail in most banks' activity structure, so far it does not penetrate the organizations' activity structure (cf. Meyer & Rowan, 1977). This is indicated in the figure by different colors of the organizational boundary (red; brighter shade) and organizational centre (blue; darker shade).

Society logic has nevertheless some impact on international project finance by furthering the expansion of a novel "area of appropriateness" (Fligstein, 1990) and fueling the field's reinstitutionalization process. Emerging CSR myths (Hiss, 2006; forthcoming) and the "rationalization of virtue" (Boli, 2006) increasingly coincide with traditional rationality myths such as risk management and controlling. This is exemplified by the fact that CSR functions (such as handling EP compliance) are increasingly integrated into risk management and business strategy related policy units and treated as an audit or due diligence matter. Mimetic isomorphism due to initial ambiguity explains the bulk of early adoptions in the field (DiMaggio & Powell, 1983), whereas later in the second stage processes of socialization, identification, and shared sense-making increasingly overcome the reluctance to adopt the EP standard (with some institutions nevertheless wanting to maintain their distinctiveness, thus staying out of the "club"). Regular meetings among banks and between NGOs and banks intensify the process of reinstitutionalization, and following the standard becomes a habitualized activity (cf. Berger & Luckmann, 1967): As institutional logics move increasingly closer, interaction patterns in the field of international project finance resemble a "marriage of convenience".

Figure 4: Second stage of field formation



Ethical motivations become a concern of general risk management and, with this, manageable for financial institutions. Society logic increasingly penetrates the core of financial institutions, moving the issue field of project finance towards a critical threshold level, as reflected by the EP standard's consolidation and deepening in course of the 2006 revision. However, so far no complete fusion between the two contending logics has occurred, and other issue fields (e.g., export finance or corporate finance) are not very much affected by the reinstitutionalization of the issue field international project finance.

Stage 3, after 2008: True love and first siblings

Through the accession of two major French banks in 2007 (Societé Générale) and 2008 (BNP Paribas), adoptions gained critical mass with the EP standardization heralding the third stage of field formation. The time period following 2008 thus witnesses the gradual conversion of a "marriage of convenience" into a relationship of "true love", a development powerfully driven by the convergence of interests and identities within the field of international project finance. In Figure 5, we notice a strong overlap between the formerly contending logics, now constituting an institutional match that is accompanied by the emergence of a new collective rationality of socio-environmental banking. The integrated institutional logic accelerates field reformation and successively institutionalizes a new way of doing project finance. At the organizational level, formal and activity structures increasingly coincide (note that both organization boundary and centre are kept in red), overcoming their decoupling in the time period 2003 – 2008 (cf. Meyer & Rowan, 1977).

Figure 5: Third stage of field formation

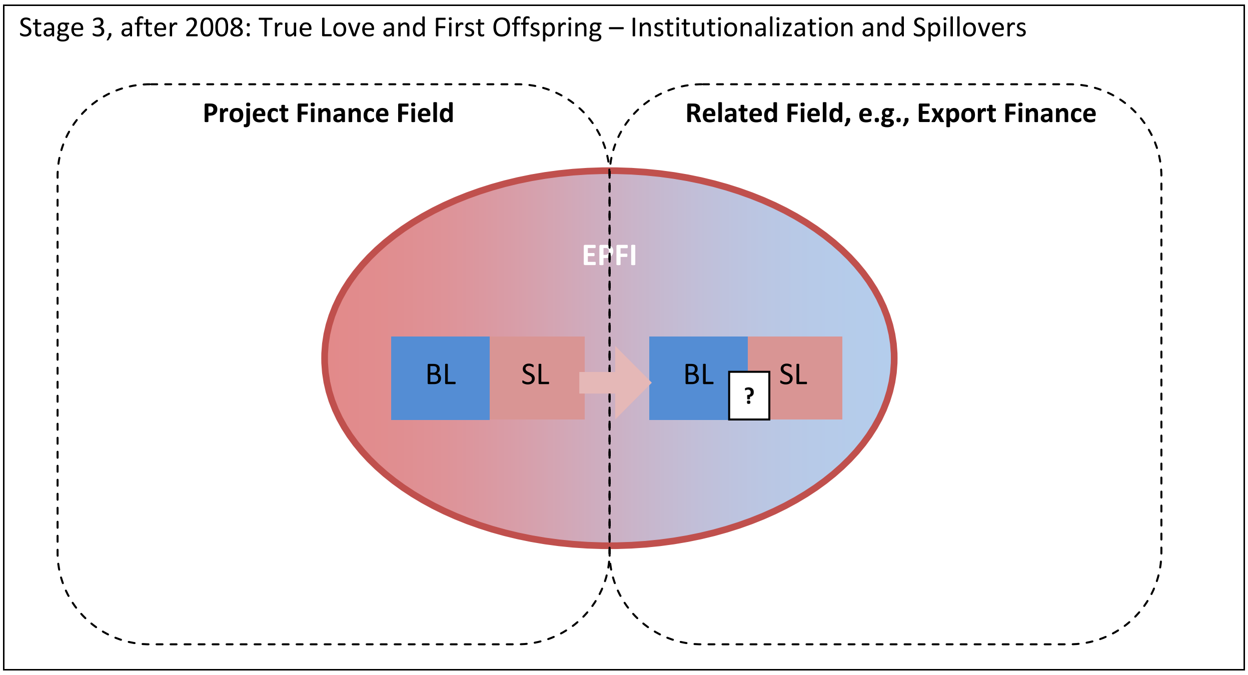


Figure 5 illustrates that organizations operate not only in a single field but in multiple, interconnected fields and that first "siblings" of a now grown-up EP standard turn toward neighboring fields, above all export finance and corporate lending. This spillover to other finance areas is very much driven by the need to be perceived both internally and externally as ethically consistent across issues. While it is quite evident that self-energizing dynamics play in a significant role in the EP standardization process and remind at "diffusion-as-contagion" perspective, we must not oversee the degree of agency that has been involved at the third stage, however. As several interviewees highlighted, the IFC, leading EP banks, and even some governments have followed and still pursue an active agenda of disseminating the EPs, pushing them and environmental consideration more general into other issue areas, and promoting them in other geographical regions (above all Russia, China, and India).

Table 1: Stages and Units of Analysis of the Issue Field "International Project Finance"

	Until 2003	2003-2008	After 2008
Metaphor	Rejected flirt	A marriage of convenience	True love and first siblings
Main Incidents	NGO campaigns; elaboration of EP standard	Initiation of EP by founding members; rising adoptions; revision in 2006	Elaboration of EP governance structure; spillover to other finance areas
Insitutional Logic	Business logic is dominant	Contest between business and society logic	Integrated logics
Rationality Myth	Risk management myth is dominant	Contest between CSR myth and risk management myth	Integrated rationality
Institutional Distance	High	Low; partial overlap of logics within the IPF field	Institutional match; strong overlap of logics
Legitimacy	First doubts raised regarding old practice that was taken for granted	Old practice is further questioned	Old practice is discredited
Institutional Process	Deinstitutionalization	Reinstitutionalization	Institutionalization

Tsable 1 offers a comprehensive summary of the narrative accounts. In short, the liaison of an unlikely couple started off rather unhappily yet over the time became a real affair of heart. This maturation process of an issue field dominated by business rationales has been triggered by the enforced entry of socio-environmental logics. Capitalizing the blending of initially competing institutional rationales, the integrated business-society logic spilled over to other issues areas. It seems that this process is far from over but continues offering exciting research opportunities for the future. The concluding chapter summarizes major research findings and contributions to the literature on standardization, and makes suggestions for future research.

6) Conclusion and Outlook

In this explorative study, we followed the call for more historical studies on diffusion (Sahlin & Wedlin, 2008) and offered a neo-institutionalist account for the recent changes in the field of international project finance. Being puzzled by the rapid dissemination of the EP standard we set out to grasp why and how certain CSR-initiatives diffuse extensively, becoming *de facto* standards in a globalized industry, whereas others do so only partially or not at all.

The main argument put forward in this study stated that the degree of overlap between contending institutional logics (conceptualized as systems of sense-making) can be considered as the central mechanism explicating processes of deinstitutionalization and reinstitutionalization, and CSR-standardization in particular. More specifically, the case of the EP standard provides an example of an institutional match, that is, a strong overlap among logics within an issue field. As we have shown, the enforced marriage between business and society logic had started off with a "rejected flirt", gradually progressed towards a "marriage of convenience" and eventually turned into "true love", with a "lived" EP standard generating active "siblings". Leaving imagery aside, the case study on the Equator Principles has strikingly illustrated how social movements have managed to use their reputational leverage to infuse society logic and reshape issue interpretation within the field of international project finance. We have shown that the initiating of the EP standard by the IFC and major market players challenged the sector's taken-for-granted assumptions of doing business, and triggered the emergence of a collective and self-reinforcing rationality with spill-over effects into other issue fields, i.e., export finance.

Contributions

We believe that the current study adds to our understanding of the EP trajectory and standardization processes more general. At the conceptual level, the distinction between the "diffusion-as-contagion" and the "diffusion-as-negotiation" perspective organizes the burgeoning field of diffusion research into two prominent strands. By explicitly applying the latter perspective in our study, we follow the call for a more "agentic" and more mechanism-based approach in neo-institutionalist field analysis (Hoffman & Ventresca, 2002; Davis & Marquis, 2005). Instead of viewing organizational fields as relatively stable, homogeneous and impermeable containers for a given set of organizations and stakeholders, we conceptualize organizational fields as relational, fragmented and open issue spaces where subject matters are prone to negotiation, interpretation, and contestation. As a consequence, both legitimation and institutionalization resemble highly dynamic processes that are constantly informed by "institutional war" (Hirsch, 1997). At the empirical level, the study findings enhance our understanding of a key mechanism driving CSR-standardization. The aggregation of the interview results provides tentative evidence for the emergence of an institutional match within the field of project finance. Importantly, this finding does not resemble the notion of the "business case for CSR" but puts forward a concise and process-based argument for the deinstitutionalization and reinstitutionalization of issue fields, conceptualizing the "business case" as a social and communicative construct itself (cf. Berger & Luckmann, 1967). Finally, the study results may also contribute to the elaboration of policy recommendations for social and environmental movements in that they provide some insights on how to achieve critical mass for bringing about social change.

The proposed institutional match between business and society logic triggering the EP-diffusion might offer a starting point for an analysis of other industry initiatives, and could also be expanded to multi-sectoral initiatives such as the UN Global Compact or the forthcoming ISO 26000 guidelines. Taken together, such cumulative efforts will possibly enable researchers, policymakers and managers to better understand the antecedents, dynamics and consequences of various forms of voluntary industry regulation beyond the nation state.

Caveats of the study

The most important limitation of the current study lies in the very specific characteristics of both EP standard and IPF sector, characteristics that might not be representative for other CSR-initiatives and industry sectors. As explicated above, the project finance sector is relatively small with a few yet large market players, while strong network ties and large reputational risks constitute other defining features of the field. Furthermore, multinational banks face harsh public scrutiny and often are considered by anti-globalization as unwanted incarnations of global capitalism (e.g., Klein, 2000). Last not but least, the Equator Principles themselves, as well as the IFC performance standards, are exceptionally concrete and detailed. In order to mitigate the danger of having produced merely some idiosyncrasies of the EP standard, comparative case studies need to be pursued in order to test for broader implications of results. Given the reliance on a single case study, the degree to which results of this paper can be generalized is therefore clearly limited.

Notwithstanding its explorative character and inherent weaknesses, we believe this current paper is capable to inform theory development and discussion about standardization processes, and encourages the future examination of CSR-standards. The paper contributes to the research focus of the subtheme by arguing that a significant research opportunity exists in identifying the processes and mechanisms that drive the production, acceptance, and competitiveness of standards on a global scale.

Opportunities for future research

The case on the Equator Principles has thrown up many questions worthy of further investigation. Most important, future studies on EP diffusion and CSR standard diffusion more general should address three broader areas, i.e., (1) the discursive underpinnings of field formation and standardization and, (2) the revision of the neo-institutionalist legitimacy concept, and (3) the actual impact of the EP standard at the project site.

First, relying on the diffusion model will no longer suffice. Future research needs to focus on processes that encourage field formation and collective rationality and ought to discover the mechanisms spawning the gradual merging of interests and identities within fields, and the concurrent adjustment of field structures (Wooten & Hoffman, 2008). So far, it remains unclear which factors make a particular logic prevailing, and which processes account for the persuasiveness of a particular myth. In line with neo-institutionalist scholars (Suddaby & Greenwood, 2005; Phillips & Malhotra, 2008; Schmidt, 2008; Walgenbach & Meyer, 2008, 187-193), we contend that field structure and field evolution can be fruitfully analyzed through (non-postmodernist) notions of discourse, such as rhetorical accounts (Green, Nohria & Li, 2009; Suddaby & Greenwood, 2005), issue framing (Hoffman, 2001; Meyer, 2004), collective action frames (Benford & Snow, 2000), narrations (Golant & Silince, 2007), and storytelling (Zilber, 2006). Emphasizing the central role of language for institutionalization processes and the analysis of CSR standardization would entail the strengthening of the cognitive strand of neo-institutionalist theory (Phillips & Malhotra, 2008).

Second and directly related to the first point, we strongly believe that the neo-institutionalist legitimacy concept requires a thorough revision. In our view, in the era of mass mediated reality the three legitimacy dimensions (Suchman, 1995) or the three institutional pillars (Scott, 2001) cannot be regarded as independent from another, but need to be conceptualized as mutually constitutive. Golant & Silince (2007) distinguish between evaluative legitimacy and cognitive legitimacy, whereas evaluative legitimacy subsumes the practical and moral dimension of legitimacy (Suchman, 1995). The authors argue that evaluative legitimacy places emphasis on individual agency that seeks to “persuade audiences with discretionary control over material and symbolic resources” (Golant & Silince, 2007: 1149). In this line of reasoning, evaluative legitimacy serves as a hinge for long-term changes in cognitive legitimacy (lying beyond individual agency), with taken-for-granted assumptions shaped and reshaped by reinterpretations, contestations, and comparisons that first impact on evaluative legitimacy. In particular, we suggest focusing on framing strategies and rhetorical accounts that are used for purposes of legitimation and to scrutinize the impact of deliberation processes on the perceived legitimacy of an outcome. The “legitimation as deliberation” perspective (Palazzo & Scherer, 2006) offers promising research avenues which possibly can be subsumed under the umbrella of a discursive variant of neo-institutionalist theory that sheds light on the strategic use of persuasive language and the communicative sources of legitimation.

Third, some interviewees from NGOs and EP adopters mentioned a number of downsides that came along with the development of the EP. Interviewees mentioned for instance that some EPFI would consider their EP engagement as a mere PR exercise to greenwash their business, with a low impact on the ground. We believe that it is important to scrutinize with a closer and more critical look the drawbacks of EP diffusion, where quantity probably came over quality more often than was intended. This would mean, for instance, to investigate the actual impact of the EP standard at the project site. However, such analysis would go beyond the scope and primary objective of this paper, but opens up interesting avenues for future research.

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