Standards as reforms. The role of conventions in sustainable finance

Abstract

This presentation focuses on the contribution of economics and sociology of conventions (EC/SC) to thinking about the role of standards in the orientation – and reorientation – of capital flows. It is part of the *Handbook* project and summarizes the main findings of the chapter (in progress) “Conventions for green investments. Stock indices and bond ratings in the Age of Sustainable Finance”. Based on a synthesis of the work done by conventionalist authors on this topic, it aims to illustrate the fruitfulness of this analytical framework for understanding the evolution of contemporary finance. The presentation will be developed in two parts.

First, we will outline the role of conventions in “traditional” investment. This will lead us to briefly review the “classical” conventionalist analysis of financial markets, initiated by André Orléan: in this model, convention is the answer to the problem of uncertainty facing financial operators. We will then support this first axis by presenting various empirical works inspired by Orléan’s approach. These will allow us to account for the richness – plurality of markets covered, originality of the analysis… – as well as the possible limits of this “classical” conventionalist approach (e.g. material resistances to mimetic logic).

Second, based on the literature review in the heart of the *Handbook* chapter, we will present an analysis of sustainable finance using the tools of EC/SC. By redefining the criteria for investment quality, this “green shift” confronts finance with the challenges of normative plurality. This challenge has been analyzed by conventionalist authors from different angles, which we will discuss: the tensions between profitability and sustainability requirements at the heart of ESG stock market indices, the dilemmas of “green” financial analysts, and the plurality of success criteria for Social Impact Bonds. These works thus open the way to a critical appreciation of the difficulties and conditions of a genuine green finance.

In conclusion, we will attempt to highlight the singularity of the EC/SC framework by comparing its interpretation of sustainable finance with two other analytical frameworks (financial economics and international political economy). Finally, we will identify some questions surrounding this theme that deserve to be further clarified by conventionalist research.

Overview of the oral presentation

1. Financial Indicators as conventions

The EC/SC literature related to the role of indicators in the (greening of the) financial markets is closely related to the Orléan's model (A), but suggests two pragmatist reorientations of this classical framework (B and C).

A: Indicators as "Saliences" elected by the financial community (intersubjective dynamics). E.g. credit ratings as "coordination mechanisms".

B: Supported by extra-financial intervention (>< pure autoreferentiality). E.g. credit ratings in US law since the *Banking Act* (1933).

C: Favored by the "materiality" of each market ("anti-anti-realism"). E.g. credit ratings are not purely arbitrary, but "involved" by the nature of a debt market (>< "bond market index").

2. The stock market

The role of stock market indices in traditional market since the advent of passive management → delegation of power from asset managers to stock indices engineers (S&P, MSCI, Euronext…). EC/SC scholars highlighted two dimensions of these indicators: 1) their emergence (Desrosières' sociology of quantification): cognitive and political interests determining their current shape; 2) their influence on market professional's decisions: definition of the "market return" to replicate or to outperform for asset managers, and the position of competitors for traders.

These indicators implied in the sustainable finance movement: over the past 15 years, a sharp increase of AuM for ESG funds, (in theory) based on ESG indices (from $5bn in 2006 to $391bn, only for ETFs). Again, EC/SC has shed light on the genealogical and performative dimensions of theses green indicators: 1) instability of conventions: plurality of authorities (ESG analysts, EU…) and of moral values; 2) plurality of impacts: rhetorical resource, competitive advantage, performance criterion…

3. The bond market

The power of credit ratings: older, fostered by US regulation since the *Banking Act* (1933). EC/SC studies on credit ratings: 1) their emergence: the "investment in form" by credit reporting agency to get paid by users; 2) their impact: on financial decisions as "mediating devices", and beyond (disciplinary effect on States, objectification of risks…).

Again, these indicators involved in the greening of this financial market by supporting the establishment of new products. In recent years, success of debt-instruments devoted to finance "sustainable activities": green bonds (from $50bn in 2014 to $522bn in 2021) and social impact bonds ($25 mn in 2021). Precursor EC/SC publications on these new products and indicators supporting them: 1) contested metrological work supporting this commodification: involving "green bond market indices" or metrics of "social returns"; 2) plurality of impacts: diversification or decarbonization vehicle? Entrepreneurial project or financial asset?

4. Conclusion and synthesis

Three obvious affinities between the sustainable finance and the EC/SC framework that should motivate future research:

- Omnipresence of quantified devices ←→ Conceptual tools of Desrosières' historical sociology
- Reintroduction of the issue of moral norms ←→ Analysis of normative component of actors' economic behaviors (value/good)
- Current normative plurality ←→ Typology of "orders of worth"

And the future literature can rely on a set of inspiring publications (see Table below).

	Stock market	**Bond market**
Traditional	Hautcoeur (2006), Duterme (2021, 2023a, 2023b), Tadjeddine (2016), Dupéret (2022)	Carruthers & Cohen (2010), Taupin (2012), Giannone (2017), Besedovsky (2018), Orléan (1999), Kornberger (2017)
“Green”	Benchemam & Chambost (2010), Penalva Icher (2008, 2009, 2010, 2016), Theurillat et al. (2017), Fichtner et al. (2023)	Langley et al. (2021), Chiapello & Knoll (2020a, 2020b), Studer (2022), Fraser et al. (2023)

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