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Rival private governance networks: Competing to define the rules of sustainability performance

Timothy M. Smith [a,*], Miriam Fischlein [b]

[a] University of Minnesota, NorthStar Initiative for Sustainable Enterprise, Institute on the Environment, 1954 Buford Avenue, Suite 325, St. Paul, MN 55108, United States
[b] University of Minnesota, Natural Resources Science and Management, 1390 Eckles Avenue, St. Paul, MN 55108, United States

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ABSTRACT

Private governance of environmental and social performance of organizations, processes and products is gaining prominence in market and policy arenas, and thus, increasingly influencing sustainability outcomes. This study presents a concept of rival private governance where multiple initiatives compete for rule-setting authority. Specifically, we argue that heterogeneous actors organize in network form to establish legitimacy of new sustainability governance fields. In an effort to preempt threats from these new fields of governance, nonparticipating actors create rival private governance networks and compete based on each network's ability to access unique relational assets from participants. Based on the cases of carbon off-set standards, green building rating systems and sustainable forestry certifications, we suggest that this competitive market vetting results in pressures toward the convergence of governance rules over time, but not a single winning set of rules. Our findings illustrate that multiple and competing networks can provide innovative, legitimate and dynamically evolving governance of sustainability, while presenting new challenges for public and private sector actors.

1. Introduction

Over the past three decades, the public monopoly on regulation has begun to bend to the forces of market mechanisms. In the environmental and social domains, governance outside of traditional state-centered regulation has proliferated. Private governance comes about when private actors take fields of governmental intervention into their own hands, and apply to them instruments that are customarily part of the private sphere. In this process, private actors gain authority—the ability to decide, direct, make rules and obtain performance from others (Cashore et al., 2004), although the legitimacy of this authority may vary (Raines, 2003). In accordance with Barnett (2006) and others (Fombrun, 1996; Ruef and Scott, 1998; Suchman, 1995) we understand legitimacy as an important signal of social acceptability. Therefore, legitimacy is described as a collective indicator of acceptability, whereas reputation is thought to distinguish one entity from another as a comparative measure of favorability (Deephouse and Carter, 2005).

While an extensive literature exists with regard to the role of private actors in rule-making, distinct perspectives appear to emerge based on the conception of actors involved, as well as how collectivization influences their ability to gain legitimacy and authority. These perspectives are summarized in Table 1. Spanning a wide array of policy domains and emanating from the point-of-view of the state, a broadly defined multi-actor governance perspective to private governance leans heavily on Rosenau and Czempiel's (1992) concept of "governance without government," where rule-making is multi-level (trans-national, national, sub-national) and multi-actor, including state and non-state actors (Newell, 2000). Multi-actor governance, thus, emerges where governmental institutions are weak or ineffective (Garrett, 1998; Schirm, 1999; Peters and Pierre, 1998) or where the content of governance requires new approaches (Biermann and Dingwerth, 2004; Gulbrandsen, 2004; Lemos and Agrawal, 2006; Pattberg, 2005). In this context, governments cease to be the sole source of authority (Cashore et al., 2004; Joerges, 2005), that is, the legitimate exercise of power. Nevertheless, the majority of the literature describes this private authority as operating within a legitimacy deficit (Zürn, 2004), as measured against democratic ideals of transparency, accessibility, and participation (Bernstein, 2005, Buchanan and Keohane, 2006). In contrast, where a new form of non-state authority is thought to be effective, it is not supplementing, but complementing traditional Westphalian sovereign authority, facilitating coordination and rendering governing more effective (Haas, 2004). When public and private resources merge, they also allow "each side to use resources that

* Corresponding author. Tel.: +1 612 624 2648; fax: +1 612 624 3005.
E-mail addresses: timsmith@umn.edu (T.M. Smith), fisch355@umn.edu (M. Fischlein).

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Table 1
Perspectives toward the private governance of sustainability.

	Perspectives Toward Private Governance of Sustainability		
	Multi-actor Governance Perspective	Self Regulation	Proposed Rival Private Governance
Approach	•Private actors contribute to and displace rule making by public actors (Rosenau and Czempiel, 1992)	•Voluntary association of firms to control their collective action (King and Lenox, 2000)	•Voluntary collective in "network form" to influence the actions of themselves and others
Scope	•Not restricted to single geographic level (multi-level) •Involves state and non-state actors (Newell, 2000)	•Within a single organizational field (i.e. industry) without direct government participation	•Across heterogeneous organizational fields
Legitimacy	•Democratic legitimacy: transparent, accessible and participatory (Bernstein, 2005; Buchanan and Keohane, 2006) •Private governance creates legitimacy deficit (Zürn, 2004)	•Collectivization: unanimous consent •Development of common norms and rules (Gunningham, 1995; Hoffman, 1999).	•Network Composition: reputational resources across heterogeneous fields conferred to the collective •Consensus: substitute for democratic legitimacy
Authority	•Government ceases to be sole source of authority •Shared (Cashore et al., 2004) or ceded (Joerges, 2005) by the state	•Isomorphic pressure (Gunningham and Rees, 1997), shaming (Rees, 1994; Braitwaithe, 1989), consent to be bound (external verification)	•Market viability and capacity signaling, claims of representativeness, consent to be bound (external verification)
Outcomes	•Mutual resource dependency between public and private actors (Peters and Pierre, 1998) •Dynamism dependent on political will.	•Critical mass of aligned adopters (Meisner Rosen et al., 2002) •Dynamism dependent on external forces.	•Multiple competing governance networks. •Dynamism dependent on internal network composition and external competitive environment.

would not be at its disposal, were it to remain on its own side of the (presumed) divide between the two sectors" (Peters and Pierre, 1998, p. 226).

In contrast, self-regulation scholars approach private governance from a decidedly different angle. Rules, norms, and codes of conduct are seen as constructed without any government participation and from within an organizational field to control its collective action (Eisner, 2004, King and Lenox, 2000). Organizational fields are described as clusters of organizations that engage in similar activities (Scott, 2001) or "who compete about something they have in common, and regard as important" (Sahlin-Andersson, 1996, p. 73). More broadly, organizational fields can be defined as, "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, producers, regulatory agencies, and other organizations that produce similar services or products" (DiMaggio and Powell, 1983, p. 148). Therefore, toward this common purpose, rule-making is motivated by a collective desire to preempt government regulation (Lyon and Maxwell, 2004; Maxwell et al., 2000; Prakash, 2000), erect barriers to new market entrants (Gupta and Lad, 1983), address stakeholder pressures (Gunningham and Rees, 1997; Wotruba, 1997) or respond to the rulemaking vacuum left by weak institutional environments under conditions of rapid societal, market or technical change (Meisner Rosen et al., 2002). From this perspective, legitimacy is gained through collectivization and safety in numbers (Gunningham, 1995; Hoffman, 1999), and, authority is derived from the power of shared norms and values, with codes of conduct being enforced through isomorphic pressures, shaming, and in some cases third-party verification (Rees, 1994; Braitwaithe, 1989). The efficacy of self-regulation has been questioned, particularly with regard to free-rider effects and compliance assurance (Delmas and Montes, 2007; Maitland, 1985). However, others have contended that these forms of rule-making can be effective through codification and certification mechanisms (Terlaak, 2007) and broad alignment with large communities of adopters (Meisner Rosen et al., 2002).

Yet in many recent instances, private proposals for addressing a single environmental or social issue, or a single product category or application, have not been limited to one initiative. Rather, rival initiatives have emerged—organizing in network form, including stakeholder groups from different organizational fields and representing various social, political, and economic interests. Per Podolny and Page (1998, p. 59), we understand networks as a system of "enduring exchange relations" between heterogeneous actors. Therefore, we see networks as a unique organizational form, different from both markets and hierarchies. Environmental and social change is enacted through competing private governance networks in a growing number of fields, from sustainable fisheries to electronics and industrial cleaning products. Interestingly, over time and in ways not well understood, such networks appear to consolidate—often converging with regard to system content, and therefore, to a certain level of environmental or social quality. This market vetting rarely culminates in a single accepted standard, though through this process, accepted norms emerge and rules of the game are established and codified. Therefore, perspectives of self-regulation and multi-actor governance do not completely capture this type of rival private governance.

Many have explained the emergence and effects of environmental standard-setting (Melnyk et al., 2002; Potoski and Prakash, 2004; Rondinelli and Vastag, 2000) and of industry self-organization around sustainability issues (Druckrey, 1998; King and Lenox, 2000). With few exceptions (Bass, 2001; Cashore et al., 2004), however, these efforts have overlooked the competitive nature of multiple private networks as drivers for the creation and evolution of sustainability governance, and how this competition between networks might influence the effectiveness and efficiency of governing. Likewise, the focus on private governance as a counterpart to state authority (Clark, 2000; Eisner, 2004; Gulbrandsen, 2004; Pattberg, 2005) has ignored the influence of competition on how private initiatives can help solve environmental and social problems. Even those scholars explicitly addressing private governance systems and their effectiveness in tackling sustainability challenges (Gulbrandsen, 2005b,c; Melnyk et al., 2002) have tended to focus on standards in isolation or as static mechanisms, disregarding their potential interaction and evolution. As private governance efforts continue to increase in number and to complement public regulation, their actions increasingly influence sustainability[1] outcomes. Thus, it is timely to explore how competition shapes the composition and results of

[1] We use the term "sustainability" very loosely to address principles associated with economic, social and environmental value.